



Oak Hill Advisors, L.P. Part 2A of Form ADV The Brochure

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This brochure provides information about the qualifications and business practices of Oak Hill Advisors, L.P. (the “**Registrant**”). If you have any questions about the contents of this brochure, please contact us at 212-326-1500 or at cg@oakhilladvisors.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 the Registrant is also available on the SEC’s website at: www.adviserinfo.sec.gov. An investment adviser’s registration with the SEC does not imply a certain level of skill or training.

Material Changes

The Registrant's most recent update to Part 2A of Form ADV was made on March 31, 2017. Since that time, the Registrant's business activities have not changed materially. The Registrant periodically reviews its policies, procedures and methodologies, and may amend them to reasonably ensure they remain fair and equitable. Should the Registrant make a material amendment to any of its policies, procedures and/or methodologies, it will amend its Form ADV, as appropriate.

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Advisory Business

The Registrant is a leading independent investment firm specializing in leveraged loans (including syndicated and private), high yield bonds, distressed investments, corporate structured products (including collateralized loan obligations (“CLOs”)) and mortgage investments (including securities and residential loans). The Registrant may also engage in other investment products, such as derivative and swap transactions, including total return swaps and credit default swaps (including index products), equity securities (including common or preferred stock, closed-end funds, exchange-traded funds and similar securities and warrants), real assets (including aircraft, automobiles, shipping, real estate, and/or related assets), and interest rate and currency hedging. The majority of investments are made in private securities and obligations, but the Registrant does also invest in publicly traded securities. The Registrant makes control and non-control investments and takes both long and short positions on behalf of its clients. The Registrant’s investment activities are concentrated primarily in the U.S. and Europe. With approximately \$32.1 billion of capital under management on a primarily discretionary basis as of January 1, 2018, the Registrant manages various pooled funds, CLOs and single investor mandates and a publicly traded business development company (a “BDC”) (each, a “Client” and collectively, “Clients”).

Investment advisory services provided to each Client are tailored to such Client’s specific investment strategy, objectives, limitations and restrictions, as set forth in each investment advisory agreement, private placement memorandum, offering circular and/or other Client constituent document, as applicable. In addition, from time to time, the Registrant provides capital markets advisory services to certain public or private issuers of debt or equity securities and other Clients.

The Registrant (through a predecessor entity) was founded in 1991 and is owned by Oak Hill Advisors GenPar, L.P., as the general partner, and WSI Otter (H), LLC, WSI OHA (S), LLC and FW Credit Partners, L.P., as the limited partners. The Registrant maintains its principal place of business in New York City and has additional offices, including in Fort Worth, Texas, Los Angeles, California, London, England, Sydney, Australia, Hong Kong, China, and Luxembourg.

Fees and Compensation

Fees and Compensation

The relationship between the Registrant and its Clients is governed by investment advisory agreements and/or other Client constituent documents, as applicable. Fees for advisory services are negotiable. With respect to separately managed account Clients, either the Registrant or the Client may generally terminate the applicable investment advisory agreement, without penalty, upon 30-90 days’ prior written notice to the other party. With respect to single investor and/or commingled fund Clients, depending on the structure and terms of a particular fund, investors therein may have monthly, quarterly, annual or more limited withdrawal rights (and in some cases may have no withdrawal rights) and may otherwise be limited in their ability to dissolve such fund and receive a return of their capital. Certain separately managed account and/or fund Clients may be subject to termination fees if the account or fund, as applicable, is terminated and/or dissolved (or an investor in a fund withdraws) prior to a defined period, as negotiated by the Registrant and the applicable

Client. Clients may be charged management fees monthly or quarterly, in arrears or in advance, and the management fees may be deducted or invoiced, as determined at the commencement of the Client advisory relationship. Generally, management fees are payable quarterly in arrears. Pursuant to the terms of applicable investment advisory agreements, and/or other Client constituent documents, as applicable, Clients who pay management fees in advance may be refunded a prorated portion of the management fee if the advisory relationship was terminated prior to the end of the relevant billing period. Depending on the type of Client and the nature of the management services to be provided by the Registrant, management fees are generally based on capital commitments, unreturned capital contributions, cost basis of investments, or the net asset value of a Client; and for capital market or similar engagements, a fixed fee may apply. Each of the investment advisory agreements and/or other Client constituent documents, as applicable, generally provides for a management fee of up to 2%. In addition, certain investment advisory agreements and/or other Client constituent documents, as applicable, provide for an incentive fee, carried interest or incentive allocation (collectively, “**performance-based fees**”) of up to 20% of all net income and gains and losses derived from portfolio investments. Certain strategic investors may receive a portion of the performance-based fees, and/or receive a reduction, waiver, or adjustment of management fees and/or performance-based fees. Certain investment advisory agreements and/or other Client constituent documents, as applicable, provide for a preferred rate of return or hurdle rate of return to Clients (i) on a fixed basis of 5-12%, (ii) on a floating basis of LIBOR plus up to 500 bps, or (iii) based on the performance of designated indices (in certain cases, with catch up to the Registrant or affiliate, as applicable), and some provide for a “high water mark” (which is also referred to at times as a “loss recovery account”). All compensation arrangements in which the Registrant receives a fee based on a share of capital gains or capital appreciation will comply with the requirements of Rule 205-3 of the U.S. Investment Advisers Act of 1940 (as amended, the “**Advisers Act**”). The allocable portion of directors’ fees and awards, transaction fees and/or similar fees in connection with Client transactions will be retained by the Registrant and/or its affiliates, provided that such amounts (net of certain expenses and hypothetical taxes) may be credited on a *pro rata* basis to certain relevant Clients against any management fees otherwise payable by such Clients, in each case, subject to the relevant investment advisory agreements and/or other Client constituent documents. Amounts not credited will be retained by the Registrant.

Expenses

Clients may bear any and all fees, costs and expenses attributable to the activities of the Clients or the Registrant incurred for the benefit of the Clients, in accordance with the terms of the investment advisory agreements and/or other Client constituent documents.

Fees, costs and expenses attributable to the activities of the Clients or the Registrant and/or its affiliates on behalf of the Clients include, but are not limited to, those related to the evaluation, discovery, investigation, development, acquisition, monitoring, or disposition of investments (whether or not consummated, and including any portion of such expenses that is not borne by co-investors). These include, but are not limited to, the fees, costs and expenses (including disbursements) related to: loan fees, private placement fees, brokerage and sales fees, commissions, appraisal fees, research fees and dealer spreads; any affiliated or unaffiliated service providers (including fixed fees (such as retainers) and/or performance-based fees), including any agent in respect of any private credit investment; underlying investment vehicles; interest and clearing and

settlement charges, commitment fees, transfer taxes and premiums, and underwriting commissions and discounts; short sales; market data (including, without limitation, in connection with any multimedia, analytical, database, news or third-party research or information services and any computer hardware and connectivity hardware (*e.g.*, terminals and telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data); legal, accounting, audit, investment banking, and third-party industry and due diligence experts (including, without limitation, for credit and risk analytics, and loss mitigation); any finders, senior advisors, originators, consultants (including sourcing consultants, operating consultants, research consultants, industry expert consultants and/or subject matter consultants) and other persons acting in a similar capacity (in each case, whether or not such persons are engaged by the Registrant and/or its affiliates in respect of a Client in a dedicated or exclusive capacity), including fixed fees (such as retainers) and/or performance-based fees, in each case, whether in the form of cash, options, warrants, stock or otherwise, and including expenses of any of the foregoing persons, including communications (including internet access fees), travel (including international cellular charges), meals, lodging and other similar expenses; oversight servicers and servicers (including fixed and/or performance-based fees); filings; communications (including internet access fees associated with the Registrant's investment professionals), travel (including international cellular charges), meals, lodging as well as late meal and car services; organizing, maintaining and operating entities controlled by the Registrant and/or its affiliate that facilitates a Client's investments (including rent, salaries and ancillary costs of such entities, costs and expenses of service providers of such entities, and expenses related to the corporate governance of such entities); interest and related expenses and custodial, depositary, trustee, record keeping and other administration services; operations and reconciliation; hedging and the incurrence of leverage and indebtedness, including borrowings, dollar rolls, reverse purchase agreements, credit facilities, securitizations, margin financing and derivatives and swaps, including any principal or interest on borrowings and indebtedness (including, without limitation, in connection with lines of credit, loan commitments, letters of credit, and in guaranteeing the obligations of any issuers or their affiliates); formation, organization, operation, winding up, dissolution and termination of any special purpose entity, alternative investment vehicle and/or co-investment vehicle; and all other fees, costs and expenses (including amounts payable to affiliates of the Registrant) related to the evaluation, discovery, investigation, development, acquisition, monitoring or disposition of potential or actual investments (whether or not consummated). In addition, Clients will bear any fees (including fixed and performance fees) payable to joint venture partners or third-party managers (in each case, without offset to any fixed and performance fees paid by Clients to the Registrant and/or its affiliates).

Other fees, costs and expenses attributable to the activities of the Clients or the Registrant and/or its affiliates on behalf of the Clients include, but are not limited to, any and all fees, costs and expenses (including disbursements) relating to: (i) implementing or maintaining third-party or proprietary software tools, programs or other technology for the benefit of the Clients (including, without limitation, any and all costs and expenses of any investment, books and records, portfolio compliance and reporting systems such as Wall Street Office, Everest (Black Mountain), Hazeltree, Electra, Omgeo, Investran and similar systems and services, including, without limitation, consultant, software licensing, data management and recovery services fees, costs and expenses); (ii) attorneys, auditors, accountants, tax professionals (in each case, including secondees and temporary personnel or consultants that may be engaged on short- or long-term arrangements as deemed appropriate by the Registrant) and administrators relating to Client matters (including costs

and expenses of in-house professionals and related administrative personnel, including personnel of the Registrant responsible for legal, tax, and accounting (including portfolio reconciliation, portfolio compliance and reporting) services or otherwise for implementing, maintaining and supervising the procedures relating to the books and records of the Clients, inclusive of their allocated administrative and overhead costs, fees, liabilities and expenses (“**Overhead**”), which includes all costs, fees and expenses on account of rent, utilities, insurance, salaries, wages, payroll taxes, bonuses, employee benefits, furnishings, telecommunications and certain information services and certain office expenses, including office supplies and equipment and other similar expenses); (iii) Client financial statements, reports, notices, tax returns and Schedule K-1s (or similar schedules), including the costs of creating, printing and distributing such financial statements, notices, reports, tax returns and Schedule K-1s (or similar schedules); (iv) taxes and other governmental charges (including transfer taxes and premiums and entity-level taxes and fees associated with corporate licensing); (v) the maintenance of registered offices, corporate licensing and similar expenses; (vi) insurance services, premiums or expenses, including errors, omissions, fidelity, crime, cybersecurity, general partner liability, directors’ and officers’ liability and similar coverage; (vii) compliance with any law or regulation (including ongoing compliance, filing, recordkeeping and reporting obligations, related software, and fees, costs and expenses incurred in implementing or maintaining such software) or in connection with any litigation or governmental inquiry, investigation or proceeding, including the amount of any judgments, settlements or fines paid in connection therewith; (viii) distributions to the Clients (or investors therein); (ix) meetings with some or all of the Registrant’s Clients (including any annual meeting of the Registrant), including, without limitation, travel, meal, and lodging expenses of the Registrant and its representatives, and ancillary activities related thereto; (x) out-of-pocket expenses incurred by members of any board or advisory committee (including, without limitation, travel, meal, and lodging expenses); (xi) the formation, marketing, maintenance, dissolution, winding up or termination of Client accounts or entities, entities controlled by the Registrant and/or its affiliates (including, without limitation, out-of-pocket legal, accounting, tax, regulatory, filing, capital raising, printing, translation, distribution, travel, lodging and meals); (xii) any amendments, modifications, revisions or restatements to the investment advisory agreements and/or other Client constituent documents, including, without limitation, related entities (including the constituent documents of any special purpose entity, alternative investment vehicle and/or co-investment vehicle, as applicable); (xiii) the negotiation and preparation of, and compliance with, side letters and most favored nations processes (as applicable); (xiv) valuation (including, without limitation and as applicable, any and all fees, costs and expenses associated with advisors, independent pricing services and third-party valuation consultants); (xv) communications (including internet access fees), lodging, travel, cellular phone and meals (including late cars and meals) and other similar costs, fees and expenses (including for the personnel of the Registrant and its affiliates and third parties); (xvi) and any postage costs and expenses related to Client matters; and (xvii) Client indemnification obligations and management fee obligations.

The Registrant allocates fees, costs and expenses among Clients and the Registrant in a fair and equitable manner consistent with its Expense Allocation Policy, as determined by the Registrant in good faith. Fees, costs and expenses will generally be allocated to applicable Clients and related entities on a *pro rata* basis based on a measure of assets under management, or otherwise as deemed fair and equitable by the Registrant in good faith. Certain Clients and related entities pay fees, costs and expenses on a fixed amount basis.

With respect to fees, costs and expenses associated with investment activity, such expenses generally will be allocated to the Clients and related entities that are invested in or are eligible to invest in the relevant asset type or strategy, as determined by the Registrant on the basis of the relevant investment advisory agreements and/or other Client constituent documents.

With respect to fees, costs and expenses associated with a consummated investment, such expenses generally will be allocated to the Clients and related entities that participated in the investment, *pro rata* based on each Client's participation in such investment.

With respect to expenses associated with an unconsummated investment, such expenses generally will be allocated to the Clients and related entities that were provisionally allocated for the prospective (but unconsummated) investment or, if no provisional allocation was made, then to the Clients and related entities eligible to invest in such asset type or strategy. The eligibility of a Client to participate in a specific asset type or strategy will be determined by the Registrant in good faith on the basis of the Client's investment advisory agreement and/or other constituent documents and/or the Client's past investments, even if such asset type or strategy is not enumerated in the relevant documents. A Client who has previously invested in (or consented to invest in) an asset type or strategy (even on a one-off basis pursuant to the Client's consent) will be considered eligible for such asset type or strategy for purposes of allocating to such Client the fees, costs and expenses associated with such asset type or strategy, including for unconsummated investments, until such Client affirmatively informs the Registrant that it no longer wishes to be considered for investments of such asset type or strategy. Each applicable Client and related entity will be allocated its *pro rata* share of any fees, costs and expenses associated with an unconsummated investment based on assets under management. This *pro rata* allocation will result in different allocable amounts than had an expense related to an unconsummated investment been allocated pursuant to a pro forma investment allocation using the Registrant's trade allocation schedule, which utilizes cash availability and maximum issuer size. See *Brokerage Practices – Bunched Orders and Trade Allocation* herein for more information on the Registrant's Trade Allocation Policies and Procedures.

The Registrant pays the allocated portions of expenses for those Clients whom the Registrant has contractually agreed not to charge or for whom it waives such expenses. The Registrant and/or its affiliates have waived, reduced and/or calculated differently the fees, costs and expenses for the Registrant's employees and certain strategic investors and friends and family of the Registrant who invest in certain Client funds. Clients and investors in Client funds may additionally negotiate variations from the Registrant's standard fees, costs and expenses.

Some services may be provided at cost by the Registrant's employees who provide legal, tax and accounting (including portfolio reconciliation, portfolio compliance and reporting) services and, in each case, their supervising persons. Some services may be provided by OH Administration Corp. (e.g., insurance services). OH Administration Corp. is a separate firm that provides services to separate firms that bear or once bore the Oak Hill name (collectively, the “**Other Oak Hill Entities**”). The Other Oak Hill Entities include, among others, Oak Hill Capital Partners (a private equity fund advisor) and its client funds. These Other Oak Hill Entities operate separately, have separate and independent general partners and managers, and make decisions on an independent basis. The Registrant believes engaging OH Administration Corp. permits the Registrant to achieve certain economies of scale.

The Registrant does not earn a profit for the services provided by in-house legal and accounting professionals. Specifically, the Registrant charges Clients their allocable portion of the lesser of (a) actual applicable cost (including allocated portions of Overhead) of such professionals or (b) an amount not to exceed the reasonable estimated cost had the service been performed by an outside firm of national repute, as determined in good faith by the Registrant. For in-house legal professionals and accounting professionals (that work on tax matters), the allocable cost for each Client or entity is based on weekly timesheets maintained by such professionals, reflecting a fixed total weekly number of work-hours for each professional. For in-house accounting professionals in general, each accounting professional is part of an accounting group that covers a designated list of Clients or entities based on similar strategies or account types, and such professionals maintain weekly timesheets (reflecting a fixed total weekly number of work-hours for such professional) in which such professional allocates his or her time between the Registrant and its affiliates, on the one hand, and their designated Clients or entities, on the other hand. The cost of services provided by each accounting group is generally allocated across the Clients and entities supported by such accounting group *pro rata* based on assets under management. With respect to Oak Hill Special Opportunities Fund, allocated costs of in-house legal professionals of Oak Hill Capital Management, LLC, an unaffiliated investment advisor that jointly advises such fund, are also charged to such fund.

Also, certain office services, which are part of Overhead, are provided by Bass Enterprises Production Co., an unaffiliated service provider partially owned by an affiliate of FW Credit Partners, L.P. Fees for these services are negotiated on an arm's length basis.

With respect to the Registrant's brokerage practices, please refer to the *Brokerage Practices* section herein.

Performance-Based Fees and Side-by-Side Management

As noted above, the Registrant and its related general partners and/or advisory affiliates charge certain Clients performance-based fees, which are fees based on a share of income from, capital gains on, or capital appreciation of, such Clients' assets. The fact that the Registrant and its related general partners and/or advisory affiliates are compensated based on the profits of such Clients may create an incentive for the Registrant to make investments on behalf of such Clients that are riskier, more speculative, or expected to generate higher returns than would be the case in the absence of such compensation.

Furthermore, the Registrant could be incentivized to allocate certain investment opportunities that are riskier, more speculative, or expected to generate higher returns to Clients that pay performance-based fees to the Registrant on terms that are preferential to other Clients. For example, some Clients pay higher performance-based fees as compared to other Clients. Some Clients pay performance-based fees periodically on realized and unrealized net gains, whereas other Clients only pay performance-based fees on a deferred basis, as investments are realized. Some Clients have a high water mark, a soft or hard hurdle and/or a preferred return, and the Registrant could be incentivized to allocate investment opportunities to Clients that are close to their respective high water mark, soft or hard hurdle and/or a preferred return, in order to begin to accrue or to continue accruing and/or receiving performance-based fees. Similarly, the Registrant could be incentivized to allocate

certain investment opportunities to Clients with preferential expense terms, such as accounts that pay a greater portion of the Client's expenses. For Clients with unfunded commitments and credit lines or other financing facilities (including subscription facilities), where the Registrant may have the discretion to either call capital or draw on the credit line or other financing facilities, the Registrant could be incentivized to draw on such credit line or other financing facilities, if doing so is expected to generate higher returns (or a lower preferred return) for purposes of calculating performance-based fees.

Performance-based fees received by the Registrant and its related general partners and/or advisory affiliates are based primarily on net income and realized and unrealized gains and losses. As a result, the performance-based fees earned could be based on unrealized gains that Clients may never realize.

Notwithstanding the above potential conflicts, the Registrant's investment allocation process does not take into account management fees and expenses or performance-based fees when allocating investment opportunities. To mitigate these conflicts, the Registrant has implemented Trade Allocation Policies And Procedures, as described in the Brokerage Practices section herein. The Registrant has implemented controls that seek to ensure fair and equitable allocation, and conducts reviews of the performance of accounts with similar investment objectives.

Types of Clients

The Registrant provides investment advisory services to various pooled funds, CLOs and single investor mandates and a BDC, in each case, for which the Registrant and certain of its affiliates serve as the general partner and/or investment adviser (or in a similar capacity). The Registrant's Clients (including investors therein) include, without limitation, pension funds, sovereign wealth funds, insurance companies, financial institutions, foundations, endowments, fund of funds family offices and high net worth individuals. All investors in private fund Clients are required to be either "qualified purchasers" or employees who are deemed to be "knowledgeable employees" under the U.S. Investment Company Act of 1940 (as amended, the "**40 Act**"), or must otherwise be permitted to invest under applicable securities laws.

The Registrant does not have a formal minimum assets under management threshold with respect to separately managed accounts and single investor vehicles, but it may require minimum investments on a case-by-case basis. Pooled funds for which the Registrant or an affiliate serves as general partner and/or investment adviser generally impose a minimum investment requirement for admission as a limited partner, shareholder or similar investor, although in most cases the general partner and/or the investment adviser of the applicable fund may, in its sole discretion, accept commitments of lesser amounts (subject to applicable law). Additional suitability requirements for investment in each of the private fund Clients are more fully discussed in the disclosure and subscription documents for each fund.

Methods of Analysis, Investment Strategies and Risk of Loss

Method of Analysis and Investment Strategies

The Registrant's corporate credit investment philosophy is typically based on five tenets: (i) intensive, fundamental credit analysis; (ii) relative value analysis; (iii) focus on risk-adjusted returns; (iv) loss avoidance; and (v) active portfolio management.

- *Intensive, fundamental credit analysis* is the cornerstone of the Registrant's investment strategy and includes: (i) business, vehicle and borrower analysis, which involves a comprehensive fundamental evaluation of a company and includes historical and projected financial modeling; (ii) capital structure analysis, which evaluates the terms and structure of a company's debt and equity securities relative to the company's business risk; and (iii) valuation analysis, which considers the enterprise value of a company in both the public and private markets.

The main sources of information the Registrant uses in conducting research and diligence include, without limitation:

- Annual and quarterly company reports, prospectuses and press releases;
 - Credit agreements, indentures, shareholder agreements, offering circulars and related documents;
 - Bankruptcy and other court filings;
 - Company books and records and corporate activities;
 - Investment manager and trustee reports;
 - Financial publications;
 - Third party research and governmental agency reports; and
 - Corporate rating services.
- *Relative value analysis* involves identifying relative value among industries, issuers and financial instruments. This process focuses on evaluating the risks assumed by investors relative to the returns implied by asset prices. The Registrant believes that different industries possess different components of risk, which may include cyclical, technological, legal and regulatory risks. Further, the Registrant believes that different companies possess different components of risk, which may include competitive, financial and managerial risks. Finally, each instrument or layer in a company's capital structure has a different measure of risk based on collateral, subordination, covenants, liquidity, interest rate sensitivity and other considerations.
 - *Focus on Risk-Adjusted Returns* involves identifying investments that offer the maximum return for the least amount of risk, and thinking about "yield-to-event" rather than yield-to-maturity.
 - *Loss Avoidance* involves concentrating on issuers with stable (or improving) businesses and securities which possess strong asset (or value) coverage and structural protection (*e.g.*, security, covenants) in the event of credit problems.
 - *Active portfolio management* involves the continuous integration of credit and relative value analyses combined with opportunistic management of the portfolio. The Registrant believes that active portfolio management is an important component of its investment strategy because market conditions and companies' credit quality continually change.

In addition, the Registrant employs a common investment process across the various sectors within the structured products and the residential loan markets. The investment process is typically based on: (a) collateral analysis; (b) structural and documentation analysis; (c) collateral manager / servicer review; (d) scenario analysis; (e) relative value analysis; and/or (f) surveillance and portfolio management.

- *Collateral analysis* is the cornerstone of the investment process and involves an extensive analysis and deep understanding of the underlying collateral for each structured product investment. Specifically, the analysis of the collateral pool is done largely on an asset-by-asset basis. The individual assets in the collateral pool are analyzed for historical and current performance and, most importantly, the assets are evaluated for future performance. For the portfolio assets, this analysis and evaluation focuses on their (i) future expected cash flow and value, (ii) default propensity, (iii) timing of potential default and (iv) potential loss severity.
- *Structural and documentation analysis* involves analyzing the structural elements of each investment and doing an in-depth review of the key governing transaction documents. The structural review includes a capital structure analysis, which evaluates the terms and structure of a transaction's various asset classes. The documentation review is performed by the Registrant, and in certain instances is supplemented through review by outside counsel.
- *Collateral manager / servicer review* involves analyzing the motivations, historical performance, and general quality of a particular collateral manager or servicer. In residential mortgage-backed securities ("RMBS") and residential loan transactions, a servicer is employed who, among other functions, collects payments from borrowers, manages delinquent borrowers and can modify the terms of mortgages in the underlying pool. The Registrant believes that an in-depth understanding of these organizations can materially impact investment returns and relies on both in-depth ongoing reviews and long-standing market experience in order to analyze collateral managers and servicers.
- *Scenario analysis* involves projecting the future cash flows of a collateral pool and modeling how the projected returns of a particular investment tranche may vary as the projections of the underlying cash flows are modified under different scenarios. The scenarios can be varied based on asset-specific considerations as well as macro-economic factors. The scenario analysis seeks to integrate the analyses performed on the collateral, structure, documentation, and collateral manager / servicer, so that the boundaries of risk and return can be reasonably calculated and understood, prior to making an investment decision.
- *Relative value analysis* involves identifying relative value among different sectors in the structured products markets (*i.e.*, CLOs versus RMBS, etc.) as well as within specific sectors. This process focuses on evaluating the risks assumed by investors relative to the returns implied by asset prices. This analysis also incorporates relative risk and return across the various tranches and capital structures available for investment in the structured products markets.
- *Surveillance and portfolio management* involves performing investment surveillance on each portfolio asset on a regular basis, in addition to monitoring overall portfolio risks.

Generally, the performance to date of each investment is evaluated relative to projected performance at the time the investment was made. Taking into account current market pricing and expected ongoing collateral performance, future projected returns are calculated and a buy/sell/hold decision is made. This process also allows relative value decisions to be made both among investments already in the portfolio and those available for purchase in the markets. Portfolio concentration risks and macroeconomic risks are continually evaluated, and hedging strategies may be employed to mitigate certain of these risks.

The Registrant's investment team performs three primary functions: research, trading and portfolio management.

- **Research:** Research professionals are responsible for all aspects of credit and structured products analysis and due diligence, as described above. In addition, as part of the research process, research professionals may: (i) conduct diligence meetings with management, selected customers, suppliers, competitors, service providers and industry analysts; (ii) engage outside consultants and legal and accounting experts, as necessary; and (iii) prepare internal research reports and recommendations for the portfolio manager. The industry-focused research professionals regularly monitor both existing and prospective investments as well as fundamental trends in their respective industry segments.
- **Trading:** Trading professionals are responsible for managing the trading process and for providing the investment team with insight on relative value and capital markets issues. The trading professionals also generate market-oriented investment ideas for the research group.
- **Portfolio Management:** The portfolio managers approve all investment decisions and supervise the research and trading professionals. The approval process is typically based on meetings with research and trading professionals on each investment. Investment decisions are based on, among other factors, credit analysis, relative value, diversification and/or market conditions with the objective of maximizing risk adjusted returns.

Risk of Loss

The description contained herein is an overview of certain risks to Clients (and investors therein) relevant to the Registrant's method of analysis, investment strategies and types of securities recommended, and is not intended to be complete. Additional risks and uncertainties applicable to Clients may exist. A detailed description of applicable risk factors are set forth in Client private placement memoranda, public filings (e.g., Forms 10-K and 10-Q) and/or other Client documents and disclosures as applicable, which the Registrant will make available to current Clients, investors and qualified prospective investors upon request. All investments involve a risk of loss and any investment strategy offered by the Registrant could lose money over the short or long term. Clients and investors should carefully consider a number of different risks including, but not limited to the following.

A. Investment Strategy Risks

Investment and Trading Risks. All investments in securities and obligations risk the loss of capital, including the risk of a total loss of invested capital. The Registrant believes that its investment and research programs and techniques may moderate this risk through a careful selection

of securities, obligations and other financial instruments. No guarantee or representation is made that a Client's program will be successful. Past performance is not necessarily indicative of future performance. Clients' investment programs may utilize such investment techniques as leverage, margin transactions, short sales, derivatives and other swaps (including for purposes of interest rate and/or currency hedging), options on securities and forward contracts, which practices may, in certain circumstances, increase the adverse impact to which the Clients may be subject. Clients may invest in loans, bonds or other fixed-income securities or obligations, including, without limitation, public and private non-investment grade bonds, secured loans, second lien debt, structured products, convertible securities and other financial instruments with fixed-income characteristics. Such securities and obligations will primarily be below investment grade and face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the applicable issuer's inability to timely meet interest and principal payments. The market prices of such instruments are also subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility, and the spread between the bid and ask prices of such instruments may be greater than those prevailing in other financial markets.

Economic, Political and Market Risks. The investments made by the Clients may involve a high degree of business and financial risk that can result in substantial losses. In particular, these risks could arise from changes in the financial condition or prospects of the entity in which the investment is made, changes in national or international economic and market conditions and changes in laws, regulations, trade barriers, exchange rates and controls, fiscal policies, or political conditions of countries in which investments are made, including the risks of war and the effects of terrorist attacks and security operations. Changes in such aspects may result in the disruption of the global credit markets, periods of reduced liquidity, greater volatility, general widening of credit spreads and a lack of price transparency. The Registrant's investments are expected to be sensitive to the performance of the overall global economy. A negative impact on economic fundamentals and consumer and business confidence would likely increase market volatility and reduce liquidity, both of which could have a material adverse effect on Clients' performance and these or similar events may affect the ability of Clients to execute their investment strategies.

In the past decade, there have been periods of global market uncertainty and adverse financial conditions. Volatile and difficult global credit market conditions adversely affect the market values of equity, fixed-income and other financial instruments. The possibility of partial or total loss of capital will exist, and investors should not invest unless they can readily bear the consequences of such loss. Market disruptions may cause dramatic losses for the Clients and such can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk. In addition, interest rate changes may affect the value of Clients' debt instruments as well as the ability of companies or businesses in which the Clients may invest to refinance debt securities. Factors that may affect market interest rates include, without limitation, inflation, slow or stagnant economic growth or recession, unemployment, money supply, governmental monetary policies, international disorders and instability in domestic and foreign financial markets. In a changing interest rate environment, the Registrant may not be able to manage this risk effectively, and performance could be adversely affected. The Registrant will not necessarily hedge Clients' interest rate risk.

Changing political environments, regulatory restrictions and changes in government institutions and policies in and outside the United States could adversely affect Client investments. Civil unrest,

ethnic conflict or regional hostilities may contribute to instability in some countries. Such instability may impede business activity and adversely affect the environment for foreign investments. Actions in the future of one or more governments could have a significant effect on the various economies, which could adversely affect market conditions, prices and yields of securities and other obligations.

Below Investment Grade Debt Securities and Obligations. Risks associated with investing in high yield fixed income securities and obligations (*e.g.*, leveraged loans and high yield bonds) include:

- the issuer's inability to pay interest or repay principal;
- illiquidity in the markets may make the securities and obligations difficult or impossible to sell;
- the issuer or company may repay the security or obligation prior to maturity;
- companies that issue such securities and obligations are often highly leveraged and may not have available to them more traditional methods of financing;
- issuers and companies generally do not issue publicly traded securities, making it more difficult to hedge the risks associated with such investments; and
- information relating to companies that issue such securities and obligations may be less readily available and reliable than other companies, such as those that issue publicly traded securities, and therefore Clients are more dependent on the analytical abilities of the Registrant.

Leveraged Loans. The Registrant may invest on behalf of Clients in leveraged loans. Leveraged loans will generally be rated below investment grade or may also be unrated. As a result, the risks associated with leveraged loans are similar to the risks of other below investment grade fixed-income instruments. In addition to the risks for such fixed income obligations set forth above, leveraged loans, including those acquired via participations, entail other risks such as (i) the risk that the underlying borrower may experience a default and a bankruptcy, and the related risks thereto, (ii) environmental liabilities that may arise with respect to collateral securing the obligations and (iii) extended settlement periods. In general, the secondary trading market for leveraged loans may not be as liquid or efficient as those for certain other debt securities. To the extent a secondary market for leveraged loans exists, it may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods.

In addition, where loans are acquired via participations, additional risks apply, such as (i) limitations on the ability of the Registrant to directly enforce its rights (including set-off) versus the obligor, (ii) exposure to the creditworthiness and performance risk of the participation seller, and (iii) limitations on the ability to directly benefit from the collateral supporting the debt instrument. As a result, Clients will assume the credit risk of both the obligor and the seller selling the participation. In the event of the insolvency of such seller, the Clients may be treated as a general creditor of such seller, and may not benefit from any set-off between such seller and the obligor. Under a participation, the Registrant may not be entitled to negotiate the covenants restraining the activities of the borrower under the leveraged loans that it invests in on behalf of Clients. As a result, such loans may not include certain financial covenants and may not sufficiently protect the Client's income stream.

Clients will compete with a broad spectrum of lenders, some of which may have greater financial resources than the Clients, and some of which may be willing to lend money on better terms (from a borrower's standpoint) than the Clients. Increased competition for, or a diminution in the available supply of, qualifying loans may result in lower yields on such loans, which could reduce returns to Clients. In addition, there has been a growth in the percentage of leveraged loans issued as "covenant-lite." Client's investments in loans with limited covenant protections may pose a higher risk, as the borrowers of such loans are subject to fewer covenants with respect to, among other things, other debt that such borrowers may incur. The lack of such covenants may increase the likelihood that such borrowers could default on their payments to a Client, thereby resulting in losses to such Client.

High Yield Bonds. The Registrant may invest on behalf of Clients in high yield bonds (*i.e.*, bonds that are rated in the sub-investment rating categories by credit rating agencies). Such securities are generally not exchange-traded and, as a result, these instruments may trade in a smaller secondary market than exchange-traded bonds. In addition, such issuers may not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. In addition to the risks for such fixed income securities set forth above, the market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than higher-rated securities. Also, high yield bonds tend to be more volatile than higher-rated securities and may not be protected by financial covenants or limitations on additional indebtedness. Furthermore, companies that issue such lower-rated and/or unrated securities are often highly leveraged and may not have available to them more traditional methods of financing.

Lower Credit Quality Investments. There may be no restrictions on the credit quality of the investments of certain Clients. Instruments in which the Registrant may invest on behalf of certain Clients may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. Other investments may be unrated. Lower-rated and unrated instruments in which the Registrant may invest on behalf of Clients are subject to significant uncertainties or major risk exposures to adverse conditions, may be more illiquid, and are considered to be predominantly speculative. Generally, such investments offer a higher return potential than higher-rated investments, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these investments (such as subordinated securities) also tend to be more sensitive to changes in economic conditions than higher-rated instruments. Declining real estate values, in particular, will increase the risk of loss upon default, and may lead to a downgrading of the applicable investments by rating agencies. The value of such investments may also be affected by changes in the market's perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies. In general, the ratings of nationally recognized rating organizations represent the opinions of these agencies as to the quality of the investments that they rate. These ratings may be used by the Registrant as initial criteria for the selection of portfolio investments. Such ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of the investments. It is also

possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

Sovereign Debt Investments. Clients may invest in sovereign debt instruments, which involve special risks. The governmental authority that controls the repayment of the sovereign debt may be unwilling or unable to repay the principal and/or interest when due in accordance with the terms of such instruments due to: (i) the extent of its foreign reserves; (ii) the availability of sufficient foreign exchange on the date a payment is due; (iii) the relative size of the debt service burden to the economy as a whole; or (iv) the government debtor's policy towards the International Monetary Fund and the political constraints to which a government debtor may be subject. If an issuer of sovereign debt defaults on payments of principal and/or interest, Clients may have limited legal recourse against the issuer and/or guarantor. In certain cases, remedies must be pursued in the courts of the defaulting party itself, and a Client's ability to obtain recourse may be limited. All of a Client's investments in sovereign debt instruments (if any) will be subject to typical market risks.

Bridge Loans. It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including leveraged buyouts. Bridge loans are frequently made because, for timing or market reasons, longer-term financing is not available at the time the funds are needed, which is often at the time of the closing of an acquisition. In the past, these commitments were not frequently drawn upon due to the availability of other sources of financing; however, due to market conditions affecting the availability of these other sources of financing (principally high-yield bond transactions), bridge loan commitments have been and may be drawn upon more regularly. Since these commitments were not regularly drawn upon in the past, there is little history for investors to rely upon in evaluating investments in bridge loans. Bridge loans often have shorter maturities. Borrower and lenders typically agree to shorter maturities based on the anticipation that the bridge loans will be replaced with other forms of financing within such shorter time period. However, the source and timing of such replacement financing may be uncertain and can be affected by, among other things, market conditions and the financial condition of the borrower at the maturity date of the bridge. If the borrower is unable to obtain replacement financing and repay the bridge loan at maturity, the terms of the bridge loan may provide for the bridge loan to be converted to a longer term loan. If bridge loans are not repaid (or cannot be disposed of on favorable terms) on the dates projected by the Registrant, there may be an adverse effect upon the ability of the Registrant to manage Client assets in accordance with its models and projections or an adverse effect upon the performance of Client accounts and the ability to make distributions to investors.

Illiquid and Restricted Investments. Investments selected by the Registrant may be illiquid, due to transfer restrictions, the size of an interest held or for other reasons. As a result, it may be necessary to hold these investments for an indefinite period of time. Generally, a less liquid investment bears more risk than a more liquid one. For example, if the Registrant is unable to liquidate an investment as its value declines, the Registrant will be unable to limit Clients' losses on such investment. Similarly, if a Registrant is unable to liquidate an investment at a time when cash is needed, the Registrant may miss other investment opportunities or be forced to sell other investments at unfavorable times. The market prices, if any, for such investments may be volatile. The sale of restricted and illiquid securities may require more time and result in higher brokerage charges or dealer discounts and other selling expenses than would the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

Distressed Investments. The Registrant may invest on behalf of Clients in companies that are experiencing significant financial or business difficulties, including companies in need of restructuring or already involved in bankruptcy or other reorganization and liquidation proceedings. These investments involve a substantial degree of risk. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Registrant will correctly evaluate the value of the assets collateralizing Clients' distressed investments or the prospects for a successful reorganization or similar action. Distressed investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings.

Restructuring Situations. The Registrant may invest on behalf of Clients in companies that face financial or operational difficulties or are otherwise in need of restructuring. To the extent that the Registrant becomes involved in such proceedings, the Clients may have a more active participation in the affairs of the company than that assumed generally by an investor. The Registrant may not be able to implement a restructuring in a timely manner or at all, and the companies may go out of business or become subject to bankruptcy proceedings. Risks include, without limitation: (i) a subsequent characterization of a payment from the company as a "fraudulent conveyance"; (ii) the recovery as a "preference" of liens perfected or payments made on account of a debt in the 90 days before a bankruptcy filing; (iii) a bankruptcy court decision to disallow, subordinate or disenfranchise Clients' claims to the company's assets (including due to equitable subordination claims by other creditors); and (iv) so-called lender liability claims by the issuer of the obligations. Other factors could adversely affect a Client's investment in such a situation, including the Registrant's misjudgment of the time required to complete a restructuring, failing to adequately monitor the company and the creditors' committees or incurring liability as an insider or fiduciary of the company. In addition, involvement by the Registrant in a company's reorganization proceedings could result in the imposition of restrictions limiting the Clients' ability to liquidate their position in the issuer. Furthermore, reorganizations can be contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. The process can involve substantial legal, professional and administrative costs to the company itself and the Registrant's Clients. In addition, restructurings are subject to unpredictable and lengthy delays, and, during the process, the company's competitive position may erode, interest may not be current or accruing, key management may depart and/or the company may not be able to invest adequately. The Registrant anticipates that it and its Clients may be named as defendants in civil proceedings. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the applicable Clients. In certain cases, Clients' priority rights may be affected or impaired by a bankruptcy process. The Registrant and/or its affiliates, on behalf of Clients, may elect to serve on creditors' committees, official or unofficial, equity holders' committees or other groups to ensure preservation or enhancement of Clients' positions as creditors or equity holders. As a result, Clients may be restricted or prohibited under applicable law from transacting in investments in the relevant company. If the Registrant and/or its affiliates resigns from or does not participate in such committees or groups, the Clients may not realize the benefits, if any, of participation on such committees or groups.

In any reorganization or liquidation proceeding relating to a company in which the Registrant invests for a Client, such Client may lose its entire investment, may not show any return for a considerable period of time, or may be required to accept cash, securities or other instruments with a value less than the Client's original investment. Under such circumstances, the returns generated from a Client's investments may not compensate such Client adequately for the risks assumed.

Closed-End Mutual Funds, Exchange-Traded Funds and CLOs. The Registrant may cause a Client to invest a portion of its assets in one or more closed-end mutual funds, exchange-traded funds, or CLOs (including CLOs managed by the Registrant or its affiliates) or similar securities. When such investments are made, such Client (and, indirectly, any investor in such Client) will effectively be paying, in addition to the compensation payable to the Registrant, such Client's proportionate share of any management fees or other compensation charged by the manager of such mutual fund, exchange-traded fund, CLO or similar security, as well as its *pro rata* portion of the expenses incurred by such entity. With respect to a new issue of a CLO managed by Registrant or its affiliates, as a result of such fees or other performance-based compensation, and particularly where the new issue is not oversubscribed, the Registrant may be incentivized to cause the Clients to invest in such new issue.

Event-Oriented Situations. The price offered for securities or other obligations of a company involved in an announced deal can generally represent a significant premium above the market price prior to the announcement. Furthermore, the difference between the price paid by the Clients for securities or other instruments of a company involved in an announced deal and the anticipated value to be received for such securities or other instruments upon consummation of the proposed transaction will often be very small. If the proposed transaction appears likely not to be consummated or, in fact, is not consummated or is delayed, the market price of the securities or other instruments will usually decline, perhaps by more than the Clients' anticipated profit.

Opportunistic/Macro Investing. Clients may invest on an opportunistic basis, seeking to take advantage of trends in the market. On occasion, the Registrant may identify trends in the market and seek to invest in such trends before the rest of the market, and then sell before a trend ends. Opportunistic investing can be very volatile and involve heavy short-term trading. Short-term trading can generate high trading costs and produce gains taxable at higher rates.

Use of Leverage. The Registrant may use leverage in its investment program, as agreed with the relevant Clients, including the use of borrowed funds and certain types of swaps, repurchase agreements, options, such as puts and calls, and warrants. Leverage strategies increase the risk of loss. Leverage may be applied with respect to a Client portfolio as a whole or with respect to one or more investments, and the presence of such leverage will magnify the volatility of and substantially increase the risk profile of investments. To the extent the Registrant purchases securities and/or obligations with borrowed funds, net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The interest costs associated with such borrowing will reduce Clients' returns. If the interest expense on borrowings were to exceed the return on the investments made with borrowed funds, the use of leverage would result in a lower rate of return than if leverage was not used, magnifying the potential loss on amounts invested and therefore increasing the risks associated with such an investment. Lenders may, under the terms of financing arrangements put in place with them, have the right to withhold distributions of interest payments

in respect of any or all leveraged investments for various reasons, including in the event that any such investment fails to perform as expected. Further, to the extent income received from investments is used to make payments under any financing arrangement, a Client and its investors may be allocated income, and, therefore, tax liability, in excess of cash received by them in distributions. Borrowings will typically be secured by Clients' securities and other assets and/or by assignment of the obligations of the Client's investors to make capital contributions to the Client. Under certain circumstances, the lender may demand an increase in the collateral that secures the Clients' obligations and if the Clients were unable to provide additional collateral, the lender could liquidate assets held in the account to satisfy such Clients' obligations to the lender. Liquidation in such manner could have extremely adverse consequences.

Use of Derivatives; Hedging Transactions. The Registrant will, from time to time, utilize a variety of financial instruments such as derivatives, swaps, caps and floors, options, futures, and forward contracts both for investment purposes and for risk management purposes, including to hedge against fluctuations in the relative values of its portfolio positions from changes in commodity prices, currency prices and market interest rates, and for speculative or financing purposes. Hedging against a decline in the values of the Registrant's portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can offset the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. Furthermore, there is a risk that the Registrant may not anticipate a particular risk so as to hedge against it or may choose not to hedge a known potential risk.

Lender Liability and Equitable Subordination. In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed, "**lender liability**"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to a borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called "**equitable subordination.**" Clients could be subject to these risks. In addition, laws of non-U.S. jurisdictions may also impose liability upon lenders or bondholders under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under U.S. federal and state laws.

Provision of Managerial Assistance. Clients may obtain rights to participate substantially in and to influence substantially the conduct of the management of the issuers in which the Registrant invests on their behalf. The Registrant may designate directors (and non-executive chairmen) to

serve on the boards of directors of issuers. The designation of directors and other measures contemplated could expose the assets of such Clients to claims by an issuer, its security holders and its creditors. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability which the limited liability characteristic of business operations usually ignores. If these liabilities were to occur, such Clients could suffer losses in its investments. While the Registrant intends to manage the Clients in a way that will minimize exposure to these risks, the possibility of successful claims cannot be precluded.

Synthetic Securities. In addition to credit risks associated with holding below investment grade securities and obligations, Clients investing in synthetic instruments will usually have a contractual relationship only with the counterparty of such synthetic instruments, and not the issuer of the underlying or linked obligation (whether an equity, debt or other instrument). Clients generally will have no right to directly enforce compliance by the underlying or linked issuer, nor any rights of set-off against such issuer, nor have any voting rights with respect to the underlying or linked obligation. Clients will not benefit directly from the collateral supporting that obligation or have the benefit of the remedies that would normally be available to a holder of that obligation. If a Client enters into a derivative instrument whereby it agrees to receive the return of a security or financial instrument or a basket of securities or financial instruments it will typically contract to receive such returns for a predetermined period of time. During such period, the Client may not have the ability to increase or decrease its exposure. In addition, such customized derivative instruments can be highly illiquid and it is possible that the Client will not be able to terminate such derivative instruments prior to their expiration date or that the penalties associated with such a termination might impact the Client's performance in a material adverse manner. In addition, in the event of insolvency of the counterparty to such a contract, Clients will be treated as general creditors of such counterparty. As a result, concentrations of synthetic instruments in any one counterparty subject these investments to an additional degree of risk with respect to defaults by the counterparty as well as by the issuer of the underlying or linked obligation.

Short Selling. Short selling creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the investor of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Additionally, certain market participants could accumulate such securities in a "short squeeze," which would reduce the available supply of, and thus increase the cost of, such securities. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

In response to dislocations in the financial services industry and other market events, the SEC and many European securities regulators, including the United Kingdom's Financial Conduct Authority implemented certain prohibitions and disclosure requirements on short selling of securities. In Europe, the European Short Selling Regulation (No 236/2012) came into force in 2012 and restricts uncovered short sales of shares and European sovereign debt instruments, prohibits the entry into uncovered sovereign credit default swaps and requires investors to notify the relevant competent authority of any net short positions in European sovereign debt instruments and shares admitted to a trading venue in the European Union. Limitations on the short selling of securities could interfere

with the ability of Clients to execute certain aspects of its investment strategies, including its ability to hedge certain exposures and execute transactions to implement its risk management guidelines.

Residential Loans. Residential loans are residential mortgage loans secured by real property and are obligations of the borrowers thereunder. Some, but not all, residential loans are government-guaranteed or privately insured. Residential loans may be prepaid at any time. Residential loans may be securitized and the securities issued in such securitization may be guaranteed or credit enhanced. Therefore, the value of the underlying collateral, the creditworthiness of the borrower, and the priority of the lien are each of great importance. A decrease in real estate or other prices relating to the underlying collateral may reduce the equity component in such real estate or other collateral and may result in higher loan-to-value ratios. A residential loan is directly exposed to losses resulting from default and foreclosure on the underlying collateral. The rate of defaults and size of losses on residential mortgage loans will be affected by a number of factors, including general economic conditions, the condition of the area where the related mortgaged property is located, geographic risks such as natural hazards, the borrower's equity in the mortgaged property, the standards by which the loan was originated and the financial circumstances of the borrower. Residential loans include so-called "Jumbo" mortgage loans, which have original principal balances that exceed the maximum for residential loans imposed by government sponsored entities (*e.g.*, Fannie Mae or Freddie Mac). In addition, adverse changes in the real estate market increase the probability of default, as the incentive of the borrower to retain equity in the property declines. Furthermore, many of the properties which will secure real estate loans originated or purchased by Clients may be suffering varying degrees of financial distress or may be located in economically distressed areas. If the fair market value of the collateral securing a residential loan falls below the remaining principal balance of the loan, the loan has greater risk of payment default as well as a risk that the net proceeds of any foreclosure will not cover the entire loan. If a residential mortgage loan is in default, the loan may need to be restructured, which may result in a write-down of the principal of the loan, or may result in foreclosure. The Registrant may find it necessary or desirable to foreclose on some if not many of the loans acquired. This foreclosure process may be lengthy and expensive. There is unlikely to be a liquid secondary market for these types of investments. The liquidation proceeds upon sale of such collateral may not satisfy the Client's basis or outstanding balance of principal and interest on the loan, resulting in a loss to the Clients. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying collateral will further reduce the proceeds and thus increase the loss. In addition, there can be no assurance as to the adequacy of the protection of the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, claims may be asserted that might interfere with enforcement of the rights of Clients. In the event of a foreclosure, Clients may assume direct ownership of the underlying collateral. The Registrant expects to purchase residential loans for eligible accounts primarily through funds with an investment period of between six months to three years, plus a post-investment harvest period. Depending on market conditions and opportunities and account-specific portfolio management and risk considerations, a portfolio manager may decide not to allocate an opportunity to an account that is eligible to participate, and the account then may not have the opportunity to invest in residential loans for an extended period of time. Furthermore, residential mortgage loans may be subject to various federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt

collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions, resulting in losses to Clients.

Structured Products. The Registrant may invest on behalf of Clients in securities backed by, or representing interests in, certain underlying instruments ("**structured products**"), including, but not limited to, CLOs, RMBS, structured debt obligations or similarly structured investment vehicles. The extent of the payments made with respect to the structured products is dependent on the extent of the cash flow on the underlying instruments. The performance of a particular structured product will be affected by a variety of factors, including its priority in the capital structure of the issuer, 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.

Investments in structured products may be illiquid in nature, with no readily available secondary market. Because they are linked to their underlying markets or instruments, investments in structured products generally are subject to greater volatility than an investment directly in the underlying market or instrument. Total return on a structured product is derived by linking the return to one or more characteristics of the underlying instrument. Subordinated structured products typically have higher yields and present greater risks than unsubordinated structured products. Structured products are typically sold in private placement transactions, and there is no guarantee that there will be an active trading market for structured products.

Investments in CLOs are extremely complex and are subject to additional risks related to, among other things, changes in interest rates, the rate of defaults and recoveries in the collateral pool, pre-payment rates, terms of loans purchased to replace loans in the collateral pool which have pre-paid and the exercise of remedies by more senior tranches. If a CLO fails to satisfy one of the coverage tests provided in its indenture, all distributions in respect of the CLO may cease or be reduced until such CLO brings itself back into compliance with such coverage tests. In addition, risks relating to the underlying leveraged loans will also affect the performance of the related CLO.

Affiliated CLOs. The Registrant may invest on behalf of its Clients (both in the new issue and secondary market) in CLOs managed by the Registrant (or an affiliate thereof) (each, an "**Affiliated CLO**"). An Affiliated CLO may pay management fees and/or other performance-based compensation to the Registrant (or an affiliate thereof). When any such investment in securities of an Affiliated CLO is made, a Client will indirectly bear its proportionate share of fees or other performance-based compensation paid to Registrant (or an affiliate thereof) by the Affiliated CLO, in addition to the compensation payable to the Registrant (or an affiliate thereof) in connection with its management of such Client. With respect to a new issue of an Affiliated CLO, as a result of such fees or other performance-based compensation, and particularly where the new issue is not oversubscribed, the Registrant may be incentivized to cause Clients to invest in such new issue.

Residential Mortgage-Backed Securities. The Registrant may invest on behalf of Clients in RMBS and its Clients may become holders of RMBS, which represent interests in pools of

residential mortgage loans secured by real property. Holders of RMBS bear various risks, including credit, market, interest rate, structural, service and legal risks. Holders of RMBS bear the risks relating to the underlying residential loans. In addition, the Registrant will generally not be able to control the processes that lead to a decline in the value of the underlying mortgaged properties comprising an RMBS investment. Each of the foregoing could negatively affect the prices of RMBS held by the Registrant's Clients.

Aircraft. The Registrant may invest, on behalf of its Clients, in aircraft (including parts thereof) and aircraft-related investments, including indirectly through securities backed by aircrafts or aircraft-related assets, and directly through private equity-like investments in aircrafts and aircraft-related assets. Commercial aircraft operators are engaged in economically sensitive, highly cyclical and competitive businesses. In connection with their acquisition of aircraft or aircraft-backed securities, Clients are affected by all the risks facing a commercial aircraft operator, which are beyond the company's control. A commercial aircraft operator's results of operations depend, in part, on the financial strength of its customers and its customers' ability to compete effectively in the market and manage their risks. Risks to which a commercial operator may be subject include, among others: general economic conditions in the countries in which its customers operate, including changes in gross domestic product and currency fluctuations; demand and rates for air travel and air cargo shipments; changes in interest rates and the availability and terms of credit; concerns about security, terrorism, war, public health and political instability; environmental compliance and other regulatory costs; labor contracts, labor costs and stoppages; aircraft fuel prices and availability; technological developments; maintenance costs; airport access and air traffic control infrastructure constraints; insurance and other operating costs; industry capacity, utilization and general market conditions; and market prices for aviation equipment.

Shipping. The Registrant may invest, on behalf of its Clients, in ships and shipping-related investments, including indirectly through securities backed by ships or shipping-related assets, and directly through private equity-like investments in ships and shipping-related assets. The shipping industry is both cyclical and volatile in terms of charter rates and profitability. In addition, it is a highly competitive industry that is capital intensive and highly fragmented. In connection with their acquisition of shipping vessels or shipping asset-backed securities, Clients are affected by all of the risks facing an operator of ocean-going shipping vessels, which are beyond the company's control. The demand for containership capacity is influenced by, among other things: the supply and demand for products suitable for shipping in containers; changes in global production of products transported by containerships; the globalization of manufacturing; global and regional economic and political conditions; developments in international trade; changes in seaborne and other transportation patterns; and environmental and other regulatory developments. In addition, the shipping industry is subject to a number of unique risks, such as the risks of piracy, governmental seizure of vessels during wartime, terrorist attacks and other international hostilities, and the availability of ports of call, and is subject to significant regulation and liability under environmental and operational safety laws. An oversupply of shipping capacity could lead to depressed charter rates. In addition, the asset values of shipping vessels have historically been volatile, which results in an unwillingness of banks and other financial institutions to extend credit. This could result in a

decline in the value of the Clients' investments in this industry, as the shipping industry is highly dependent on the availability of credit to finance and expand operations.

Real Estate. The Registrant may acquire on behalf of its Clients, directly or indirectly, debt and/or equity interests in real estate. The real estate investments of Clients will be subject to the risks generally incident to the ownership of real property, including uncertainty of cash flow to meet fixed and other obligations; adverse changes in local market conditions, population trends, neighborhood values, community conditions, general economic conditions, local employment conditions, interest rates, and real estate tax rates; changes in fiscal policies; competition from other properties; and uninsured losses and other risks that are beyond the control of Clients, such as the threat of terrorism and their consequences. There can be no assurance of profitable operations because the cost of owning Clients' real estate investments may exceed the income produced, particularly since certain expenses related to real estate and its development and ownership, such as property taxes, utility costs, maintenance costs and insurance, tend to increase over time and are largely beyond the control of the owner. In addition, Clients' ownership of equity interests in real estate may have tax consequences for certain investors that do not apply in the case of Clients' ownership of debt interests in real estate.

Equity Investments. The Registrant may invest on behalf of its Clients in preferred stock, common stock or other equity securities directly, or may hold such securities as the result of certain restructuring activities. Investments in equity securities of small or medium-sized market capitalization companies will have more limited marketability than the securities of larger companies. Additionally, because equity securities rank lower in the capital structure of an issuer, such investments may subject investors to additional risks not applicable to debt securities and holders of equity securities may be wiped out or substantially reduced in value in a bankruptcy proceeding or restructuring. The Registrant may not be able to realize gains from its equity interests, and any gains that it does realize on the disposition of any equity interests may not be sufficient to offset any other losses it experiences.

Mezzanine Investments. Mezzanine investments may be unsecured and made in companies whose capital structures have significant indebtedness ranking ahead of Clients' investments, all or a significant portion of which may be secured. Mezzanine investments may not benefit from all the similar financial and other covenants and rights as those enjoyed by the indebtedness ranking ahead of such investments.

Non-Performing Nature of Loans. There are varying sources of statistical default and recovery rate data for loans and other debt securities and numerous methods for measuring default and recovery rates. The historical performance of the credit market or the leveraged loan market is not indicative of future results. It is anticipated that certain of the loans that the Registrant may invest in for Clients may be or may become non-performing and possibly in default. Furthermore, the obligor and/or relevant guarantor may also be in or enter into bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments with respect to the loans. Although the Registrant will attempt to manage these risks, there can be no assurance that such investments will increase in value or that Clients will not incur significant losses.

Credit Risk; Collateral. One of the fundamental risks associated with Clients' investments is credit risk, which is the risk that a borrower will be unable or unwilling to make principal and interest payments on its outstanding debt obligations, including Clients' investments, when due. Clients' returns would be adversely impacted if a borrower fails to make such payments when due.

Although some Clients' investments will be secured by specific collateral, there can be no assurance that the liquidation of any such collateral would satisfy the borrower's obligations, or that such collateral could be readily liquidated. In addition, in the event of bankruptcy of a borrower, Clients could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing an investment. Under certain circumstances, collateral securing an investment may be released without the consent of Clients. Moreover, Clients' security interests (with respect to investments in secured debt) may be unperfected or otherwise limited for a variety of reasons, including the failure to make required filings by lenders and, as a result, Clients may not have priority over other creditors as anticipated. First priority lien investments made by Clients may, in certain cases, provide a first priority lien over some, but not all, of the assets of the relevant borrower. Clients may also invest in second-lien debt, high-yield securities, marketable and non-marketable common and preferred equity securities and other unsecured instruments, each of which involves a higher degree of risk than senior first-lien secured debt, including the re-use and subsequent loss of collateral by the borrower. Furthermore, Clients' right to payment and its security interest, if any, may be subordinated to the payment rights and security interests of senior lenders. Certain of these investments may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the investment. In such cases, the ability of the issuer to repay the principal in respect of Clients' investments may be dependent upon a liquidity event or the long-term success of the company, the occurrence of which is uncertain.

The terms of derivative arrangements may provide that related collateral given to, or received by, Clients may be pledged, lent, re-hypothecated or otherwise re-used by the collateral taker for its own purposes. If collateral received by Clients is reinvested or otherwise re-used, Clients are exposed to the risk of loss on that investment. Should such a loss occur, the value of the collateral will be reduced and Clients will have less protection if the counterparty were to default. Similarly, if the counterparty reinvests or otherwise re-uses collateral received from Clients and suffers a loss as a result, it may not be in a position to return that collateral to Clients should the relevant transaction complete, be unwound or otherwise terminate and Clients is exposed to the risk of loss of the amount of collateral provided to the counterparty.

Senior Loans. Senior secured loans are usually rated below investment grade or may be unrated. As a result, the credit risks associated with senior secured loans are similar to the risks of other non-investment grade fixed income instruments, although senior secured loans are senior and secured in contrast to other non-investment grade fixed income instruments, which are often subordinated or unsecured. Moreover, there is a risk that the collateral securing such loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital, and, in some circumstances, the Clients' liens could be subordinated to claims of other creditors. Consequently, the fact that a loan is secured does not guarantee that the Clients will receive principal and interest payments according

to the loan's terms, or at all, or that the Clients will be able to collect on the loan should it be forced to enforce its remedies.

Private Loans and Middle Market Loans. Loans and other investments in private and middle market companies involve a number of particular risks that may not exist in the case of large public companies, including: (i) these companies may have limited financial resources and may be unable to meet their obligations under the debt securities that a Client holds, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of the Client realizing on any guarantees the Client may have obtained in connection with its investment; (ii) these companies typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns; (iii) limited public information exists about many of these companies, and the Registrant is required to rely on the ability of the Registrant's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies, and if the Registrant is unable to uncover all material information about these companies, it may not make a fully informed investment decision, and Clients may lose money on such investments; (iv) these companies are more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on these companies' ability to meet their obligations; (v) these companies generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and (vi) these companies may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

Consumer Loans. The Registrant may invest on behalf of Clients in consumer loans. Such loans may be at the time of acquisition, or may become after acquisition, non-performing for various reasons. With respect to collateralized loans, the underlying property may be highly leveraged, poorly managed or substantially in need of rehabilitation. Such non-performing and sub-performing loans may require a substantial amount of workout negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of the loan. Finally, there is unlikely to be a liquid secondary market for these types of investments. Consequently, such investments may not be able to be disposed of at prices that reflect their most recent valuation or the amount paid for them.

Loan Origination. The Registrant may seek, on behalf of its Clients, to originate loans, including, but not limited to, secured and unsecured notes, senior and second lien loans, mezzanine loans, and other similar investments. Loan origination involves a number of particular risks that may not exist in the case of secondary debt purchases, including:

- when originating loans, the Registrant will generally have to rely more on its own resources to conduct due diligence of the borrower, which will likely be more limited

than the diligence conducted for a broadly syndicated transaction involving an underwriter;

- loan origination may involve additional regulatory risks, given the requirement to hold a license for certain types of lending in some jurisdictions. The regulatory requirements (and permitted exemptions) vary from jurisdiction to jurisdiction and may change from time to time;
- the borrowers may, in some circumstances, be higher credit risks who could not obtain debt financing in the syndicated markets; and
- the level of analytical sophistication, both financial and legal, necessary for successful financing to companies, particularly companies experiencing significant business and financial difficulties, is unusually high. There is no assurance that the Registrant will correctly evaluate the value of the assets collateralizing these loans or the prospects for successful repayment or a successful reorganization or similar action.

In addition to the risks described above and also under *Private Loans and Middle Market Loans*, loan origination may also result in substantial tax liabilities for certain Clients and/or investors. Finally, there is no assurance that a Client will be able to subsequently sell, assign or successfully close transactions for the loans that it originates, and if so, such Client will be forced to hold its interest in such loans for an indeterminate period of time. This could result in such Client's investments being over-concentrated in certain borrowers.

Shadow Banking Regulation. There has been increasing commentary among regulators and intergovernmental institutions, including the Financial Stability Board and International Monetary Fund, on the topic of so-called "shadow banking" (a term generally taken to refer to credit intermediation involving entities and activities outside the regulated banking system). The Financial Stability Board issued a report that recommended strengthening oversight and regulation of the "shadow banking" system in Europe. While, at this stage, it is difficult to predict the scope of any new regulations, if (a) such regulations were to extend the regulatory and supervisory requirements currently applicable to banks, such as capital and liquidity standards, or (b) Clients were considered to be engaged in "shadow banking," in each case, the regulatory and operating costs associated therewith could adversely impact the implementation of Clients' investment strategies and returns and could become prohibitive with respect to Client investments in issuers located in the European Union. In an extreme eventuality, it is possible that such regulations could render investments by issuers located in the European Union unviable and lead to premature restructuring and/or disposition of existing investments.

Non-U.S. Investments. Investments outside the U.S. or denominated in non-U.S. currencies pose currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include, depending on the country involved, expropriation, confiscatory taxation, political or social instability, illiquidity, price volatility, market manipulation, changes in law, changes in governmental administration or economic or monetary policy, and changed circumstances in dealings between nations. In addition, less information may be available regarding non-U.S. investments and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies. Transaction costs of investing outside the U.S. may be high. There may be less government supervision and regulation of exchanges, broker-dealers and funds

than there is in the U.S. Non-U.S. investments pose legal risks relating to the local laws and regulations and the application or interpretation thereof and the independence of judicial systems. Clients may encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in non-U.S. courts. Issuers located in non-U.S. jurisdictions may be involved in restructurings, bankruptcy proceedings and/or reorganizations under laws and regulations that may not provide Clients with rights and privileges necessary to promote and protect their interests. Generally accepted accounting standards and practices may differ significantly from those practiced in the United States. The financial information appearing on the financial statements of a company operating in one or more non-U.S. countries may not reflect its financial position or results of operations in the way they would be reflected if the financial statements had been prepared in accordance with accounting principles generally accepted in the United States. Non-U.S. markets also have different clearance and settlement procedures which may have substantial delays and settlement failures that could adversely affect Clients' performance. Greater tax risks and complexities also may be associated with these investments. Laws affecting international investment and business continue to evolve, although at times in an uncertain manner that may not coincide with local or accepted international practices. Laws and regulations, particularly those concerning foreign investment and taxation, can change quickly and unpredictably. Inconsistencies and discrepancies among various local, regional and national laws, the lack of judicial or legislative guidance on unclear or conflicting laws and broad discretion on the part of government authorities implementing the laws produce additional legal uncertainties. The burden of complying with conflict laws may have an adverse impact on the operations of the Registrant.

In general, investments denominated in a currency other than the currency of the relevant Client creates exchange rate risk of loss. The Registrant may utilize options and forward contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be entered into, or, if entered into, will be effective. Forward contracts and options thereon, unlike futures contracts, are generally not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward trading (to the extent forward contracts are not traded on exchanges) and "cash" trading are substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell.

Economic and Political Risks Relating to the European Region. There is often a high degree of government regulation in European economies, including in the securities markets. Governments in certain of the countries in Europe also participate to a significant degree, through ownership interests or regulation, in their respective economies. Action by such governments may directly affect foreign investment in securities or other obligations in those countries and may also have a significant indirect effect on the market prices of securities and other obligations, as well as on the payment of dividends and interest. Changes in policy with regard to taxation, fiscal and monetary policies, repatriation of profits, and other economic regulations are possible, any of which could have an adverse effect on private investments. Information on certain European countries may be

contradictory or absent. In certain European countries there may be high unemployment, which could hinder the ability of various governments to keep deficit spending in check. Changing political environments, regulatory restrictions, and changes in government institutions and policies in Europe could adversely affect private investments. Civil unrest, ethnic conflict or regional hostilities may contribute to instability in some countries of Europe. Such instability may impede business activity and adversely affect the environment for foreign investments. The Registrant does not intend to obtain political risk insurance. Actions in the future of one or more European governments could have a significant effect on the various economies, which could affect market conditions, prices and yields of securities and other obligations.

In addition, the deterioration of the sovereign debt of several Eurozone countries during 2008-2009 raised a number of uncertainties regarding the stability and overall standing of the European Monetary Union. Economic, political or other factors could result in further changes to the composition of the European Monetary Union. The risk that other Eurozone countries could be subject to higher borrowing costs and face further deterioration in their economies, together with the United Kingdom's decision to exit the European Union (as discussed below under *Brexit*) and the risk that Eurozone countries could withdraw from the European Union, could have a negative impact on the Clients' investment activities. A reintroduction of national currencies in one or more Eurozone countries or, in more extreme circumstances, the possible dissolution of the European Monetary Union cannot be ruled out. The departure or risk of departure from the European Monetary Union by one or more Eurozone countries and/or the abandonment of the euro as a currency could have major negative effects on the Clients. If the European Monetary Union is dissolved entirely, the legal and contractual consequences for holders of euro-denominated obligations would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of investments.

Solvency II. The European Union directive on the taking-up and pursuit of the business of Insurance and Reinsurance ("**Solvency II**") sets out stronger capital adequacy and risk-management requirements for European insurers, dictates how much capital such firms must hold against their liabilities and how to undertake a risk-based assessment of those liabilities. This may affect the allocation of investment by insurers. Insurers are also subject to reporting requirements. Although funds and fund managers are not directly subject to Solvency II, it could impose on fund managers extensive reporting obligations for those insurers and reinsurers who are subject to Solvency II that do invest in such funds. Solvency II is also subject to further secondary legislation.

Brexit. A referendum on United Kingdom membership of the European Union was held on June 23, 2016, the result of which was a vote that the United Kingdom should leave the European Union. The referendum result introduces significant new uncertainties and has resulted in volatility in financial markets. These uncertainties could have a material adverse effect on the business, financial condition, results of operations and prospects of the issuers in which Clients invest and/or the Registrant and/or its affiliates. On March 29, 2017, the government of the United Kingdom invoked article 50 of the Treaty of Lisbon (the "**Treaty**"), which had the effect of formally initiating the withdrawal of the United Kingdom from the European Union. The Treaty provides for a period of up to two years for negotiation of withdrawal arrangements, at the end of which (whether or not agreement has been reached) the treaties cease to apply to the withdrawing EEA Member State unless the European Council, in agreement with the EEA Member State concerned, unanimously

decides to extend this period. During, and possibly after, this period there is likely to be considerable uncertainty as to the position of the United Kingdom and the arrangements that will apply to its relationships with the European Union and other countries following its withdrawal, including the extent to which any transitional arrangements may apply. This uncertainty may affect other countries in the European Union, or elsewhere, if they are considered to be impacted by these events.

General Risks of Investments Outside of More Developed Economies. The Registrant may make investments that have exposure to less developed or developing countries, such as those in Eastern Europe. Such investments involve risks, such as those relating to: (i) differences arising from less developed securities markets, including potential price volatility in, and relative illiquidity of, some such securities markets; (ii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements; (iii) less government supervision and regulation in some countries, which may result in lower-quality information being available and less developed corporate laws regarding fiduciary duties and the protection of investors, less developed bankruptcy laws and difficulty in enforcing contractual obligations; (iv) certain economic and political risks, including potential economic, political or social instability, exchange control regulations, restrictions on foreign investment and repatriation of capital (possibly requiring government approval), expropriation or confiscatory taxation and higher rates of inflation and reliance on a more limited number of commodity inputs, service providers and/or distribution mechanisms; (v) potentially material and unpredictable governmental influence on the national and local economies; (vi) fewer or less attractive financing and structuring alternatives and exit strategies; and (vii) the possible imposition of local taxes on income and gains recognized with respect to investments.

Control Investments. Control investments bear the risk of liability for environmental damage, product defect, failure to supervise management, violation of governmental regulations and other types of liability, in which the limited liability characteristic of business operations may be ignored. When disposing of these investments, the Clients may be required to make representations and warranties about the business and financial affairs of the investments typical of those made in connection with the sale of any business, or may be responsible for the contents of disclosure documents under applicable securities law. The Clients may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations and warranties or disclosure documents turn out to be incorrect, inaccurate or misleading. These arrangements may result in contingent liabilities, which will be borne by the Clients.

Valuation. The Registrant is responsible for valuing the assets of certain Clients. Such valuation will affect reported Client management and performance-based fees received by the Registrant. Although the Registrant will be performing its valuation of Client assets pursuant to its Valuation Policy, which generally involve current market price information, there will be investments as to which current or reliable market price information is unavailable, in which event the Registrant has discretion in determining the appropriate means of valuation. There can be no assurance that the

value assigned to an investment at a certain time will equal the value that such Clients are ultimately able to realize.

B. Business Risks

Dependence Upon Certain Professionals. The performance of Clients' investments is significantly dependent upon the expertise of the professionals of the Registrant, and any future unavailability of their services could have an adverse impact on Clients' performance. The senior principals of the Registrant will devote as much of their time to the activities of Clients as they deem necessary and appropriate. The Registrant, its senior principals and their respective affiliates are (subject to legal and fiduciary obligations) not restricted from forming other Clients, from entering into other investment advisory relationships, or from engaging in other business activities, even though such activities may be in competition with existing Clients and/or may involve substantial time and resources of the Registrant or its senior principals. The time and effort of the Registrant and its senior principals, officers and employees will not be devoted exclusively to the business of any one Client but will be allocated among all Clients. In addition, there is no assurance that as the Registrant's assets under management increase, the number of investment professionals and the degree of infrastructure support available to manage those assets will increase accordingly. In addition, the Registrant can offer no assurance that any such investment professionals will contribute effectively to its business or to the work of the Registrant. Any failure to manage the Registrant's future growth effectively could have a material adverse effect on its business, financial condition and results of operations. There is no assurance that the activities of the professionals of the Registrant will be adequate or without mistakes. For example, there is no assurance that the due diligence conducted by the investment professionals of the Registrant will reveal all matters and issues, material or otherwise, relating to prospective investments.

Reliance on the Registrant. Certain Clients' investments may be structured on terms negotiated by the Registrant. If the Registrant resigns or otherwise no longer serves as the advisor of a Client, such Client's investments may be terminated or may otherwise no longer be available to such Client, which may have an adverse impact on such Client's investment performance. Moreover, subjective decisions made by the Registrant may cause one or more Clients to incur losses or to miss profit opportunities on which it may otherwise have capitalized.

Business and Regulatory Risks. The Registrant is part of a larger firm with multiple business lines in multiple jurisdictions that are governed by a multitude of legal systems and regulatory regimes, some of which are new and evolving. As a result, Clients, the Registrant and/or their respective affiliates are subject to a number of unusual risks, including changing laws and regulations, developing interpretations of such laws and regulations, judicial decisions and increased scrutiny by regulators.

For example, one Client of the Registrant is a BDC under the 40 Act and is therefore subject to additional regulatory compliance requirements and scrutiny. Also, in connection with the acquisition of certain mortgage loans, the Registrant may become subject to various laws and regulations requiring the maintenance of privacy and security of certain personally identifiable data relating to natural persons in its possession.

The Registrant and certain Clients (or investors therein) are subject to risk retention rules with respect to the issuance of, and investment in, CLOs (including Affiliated CLOs). The regulations require the Registrant and/or an affiliate thereof to make and retain certain investment amounts in Affiliated CLOs (and certain entities can only invest in CLOs that comply with such regulations). If the Registrant is not able to commit enough capital for this purpose, it may affect the Registrant's ability to issue new Affiliated CLOs in the market. These rules are in effect in the European Union. In the United States, the risk retention rules have also been in effect, however, on February 9th, 2018, the Court of Appeals of the DC Circuit issued a ruling that potentially eliminates the need for "open-market" CLO managers to comply with the risk retention rules in the United States. If the ruling is not appealed during 2018 in accordance with the applicable time frame for appeals, the ruling will effectively become law and the risk retention rules would cease to apply to the Registrant in the United States.

In addition, the Registrant conducts investment activities in multiple securities markets, which are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, other federal, state and international regulators and self-regulatory organizations and exchanges. These authorities may be authorized to take extraordinary actions in the event of market emergencies. Furthermore, the Registrant may expand its business into jurisdictions that have adopted more stringent requirements than those in which it currently conducts business. In such event, the Registrant may have to incur significant expenses in order to comply or the Registrant may have to restrict its operations. Either approach may adversely affect the ability of the Registrant to pursue its investment strategies and the value of investments held by its Clients. To the extent such regulatory expansion occurs, it may result in scrutiny or claims against the Registrant or its Clients directly for actions taken or not taken by the Registrant or its Clients, or result in ambiguity or conflict among legal or regulatory schemes applicable to their businesses, all of which could adversely affect the investment or trading strategies pursued by such Clients or their investments or the value of such investments.

In general, as a result of the evolving regulatory environment in which the Registrant operates, its Clients and/or their respective affiliates face the continuing risk of pending and potential litigation and regulatory action. These risks are often difficult or impossible to predict, avoid or mitigate in advance. The effect of any such legal risk, litigation or regulatory action on the Registrant or its Clients or their respective affiliates could be substantial and adverse.

Certain Tax Considerations. The tax considerations of Clients and their investors are complex. Legal, tax and regulatory changes could occur during the term of a Client which may adversely affect such Client. The investment decisions of the Registrant will be based primarily upon economic, not tax, considerations, and could result, from time to time, in adverse tax consequences to some or all investors. Interest payments on investments in certain jurisdictions may be subject to withholding taxes and, in some cases, such withholding taxes may be greater than if such investments were held directly by the investors.

"FATCA" shall mean one or more of the following as the context requires: Sections 1471 to 1474 of the Code and any associated legislation, regulations or guidance, commonly referred to as the U.S. Foreign Account Tax Compliance Act, the Common Reporting Standard issued by the Organisation for Economic Cooperation and Development, or similar legislation, regulations or

guidance enacted in any other jurisdiction which seeks to implement equivalent tax reporting and/or withholding tax regimes. Under FATCA, clients will be required to comply with an agreement with the Internal Revenue Service (“IRS”) or another taxing authority, pursuant to which they will be required to identify and report on certain direct and indirect owners or investors. An investor in a Client could be required to provide to such Client information which identifies its direct and indirect ownership. Any such information provided to a Client may be shared with the IRS or another taxing authority. Investors are deemed to have given their consent to the disclosure of information and agree to provide such other information as is necessary for Clients to comply with these new reporting requirements under FATCA, and such Clients will take such action as they consider necessary to ensure that any such withholding tax is economically borne by the relevant investor whose failure to provide the necessary information gave rise to the withholding tax. A Client may also redeem an investor’s interests, or take certain other actions to mitigate the consequences of an investor’s failure to comply with the requirements described above. Prospective Clients and their prospective investors are urged to consult their own tax advisors with respect to the new withholding and reporting regime imposed by FATCA.

Systems Risks and Cybersecurity Risks. Clients depend on the Registrant to develop and implement appropriate systems for their activities. The Registrant relies heavily on computer programs and systems (and may rely on new systems and technology in the future) for various purposes in connection with its activities on behalf of its Clients, including, without limitation, to trade, clear and settle transactions, to evaluate certain financial instruments, to monitor its portfolio and net capital, and to generate risk management and other reports that are critical to oversight of such Clients’ activities. Certain of the Registrant’s and its Clients’ activities will be dependent upon systems operated by third parties, including prime brokers, market counterparties and other service providers, and the Registrant may not be in a position to verify the risks or reliability of such third-party systems. The failure, corruption or breach of one or more systems (including as a result of the occurrence of a disaster such as a cyber-attack, a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in the Registrant’s disaster recovery systems, or a support failure from external providers) or the inability of such systems to satisfy a Client’s needs, including, without limitation, the execution of orders, could have a material adverse effect on the Registrant’s ability to conduct business and on its operations and financial condition, particularly if those events affect the Registrant’s computer-based data processing, transmission, storage and retrieval systems or destroy the Registrant’s data. If a significant number of the Registrant’s personnel were to be unavailable in the event of a disaster, the Registrant’s ability to effectively conduct its business could be severely compromised.

The Registrant depends heavily upon computer systems to perform necessary business functions. Despite its implementation of a variety of security measures, the Registrant’s computer systems could be subject to cyber-attacks and unauthorized access, such as physical and electronic break-ins, unauthorized tampering or unauthorized access to sensitive information, including, without limitation, information regarding Clients (and investors therein) and their investment activities, or to render data or systems unusable, each of which could result in significant losses. Like other companies, the Registrant may experience threats to its data and systems, including through malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, the Registrant’s computer systems

and networks, which could lead to or cause (i) losses of sensitive information or capabilities essential to the Registrant's operations, (ii) the disclosure of investors' personal information and/or (iii) interruptions or malfunctions in their operations, which could all result in damage to their reputation, financial losses, potential liability, litigation, remedial actions, loss of business, increased costs, regulatory penalties and/or customer dissatisfaction or loss and could have a material effect on the Registrant or its Clients.

Cybersecurity attacks are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. The Registrant's controls and procedures, business continuity systems and data security systems could prove to be inadequate. These problems may arise in the Registrant's internally developed systems and the systems of third-party service providers.

Electronic Communications. The Registrant, on behalf of its Clients, will provide to each investor the Registrant's Form ADV Part 2A and Part 2B and the statements, reports and other communications relating to the Client in which such investor has invested, and/or such investor's interest in such Client, in electronic form such as email or via a password protected website ("**Electronic Communications**"). Electronic Communications may be modified, corrupted or contain viruses or malicious code, and may not be compatible with an investor's electronic system. In addition, reliance on Electronic Communications involves the risk of inaccessibility, power outages or slowdowns for a variety of reasons. These periods of inaccessibility may delay or prevent receipt of reports or other information by an investor.

Investing on Behalf of Multiple Clients. The Registrant invests on behalf of multiple Clients. As a result, the Registrant may effect transactions for one Client that differ from the transactions effected for another Client. In addition, the Registrant may invest in certain debt or equity securities or other debt instruments of a particular issuer for one Client while investing in a different part of the same issuer's capital structure, or in different tranches of debt for another Client, and, in either case, potentially at different times. This may create conflicts of interest, for example, because in the context of financial stress or distress of the issuer, or the restructuring or reorganization of the issuer, the Registrant may pursue actions for one or more Clients that may have an adverse effect on another Client. In such instances, the Registrant will seek to act in a manner it reasonably believes to be equitable to all Clients involved under the circumstances. There can be no assurance that the term of or the return on a Client's investment will be equivalent to or better than the term of or the returns obtained by other Clients participating in the same issuer. There may be a loss or substantial dilution of one Client's investment, while another Client recovers all or part of amounts due to it. Similarly, the Registrant's ability to implement one or more Clients' strategies effectively may be limited to the extent that contractual obligations entered into in respect of the activities of another Client impose restrictions.

Material Non-Public Information. Any of the members of the Registrant's investment team may serve as an officer, director, advisor or in comparable management functions for portfolio companies in which a Client invests, and any employee of the Registrant may obtain material non-public information in connection therewith, or in connection with such person's other activities in the financial markets or otherwise. The Registrant typically operates without information barriers

to separate persons who make investment decisions from others who might possess material non-public information that could influence such decisions. In an effort to manage possible risks arising from the Registrant's decision not to implement such screens, the Registrant maintains a list of restricted securities with respect to which the Registrant may have access to material non-public information and in which Clients are restricted from trading. From time to time, the Registrant may instead arrange a limited purpose information barrier. If employees of the Registrant obtain material non-public information about an issuer and an information barrier is not in place or the material non-public information has crossed the information barrier, the Clients may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer, which could impact the returns generated for such Clients.

Board Participation/Conflicts of Interest. The Registrant's partners and employees may serve as directors of certain issuers. They will owe duties to the shareholders of the issuers and persons other than the Clients. In general, such positions are often important to the Registrant's investment strategy and may enhance the ability of the Registrant to manage the investments. However, such positions may have the effect of impairing the ability to sell the related securities when, and upon the terms, the Registrant may otherwise desire. In addition, such positions may place the Registrant's partners and employees in a position where they must make a decision that is either not in the best interests of the Clients or not in the best interests of the shareholders of the issuer. Should a partner or employee of the Registrant make a decision that is not in the best interests of the shareholders of an issuer, such decision may subject the Registrant and the relevant Clients to claims they would not otherwise be subject to as an investor, including claims of breach of the duty of loyalty, securities claims and other director-related claims.

Difficulty of Locating Suitable Investments. There can be no assurance that there will be a sufficient number of suitable investment opportunities that the Registrant will be able to identify to enable Clients to invest in opportunities that satisfy Clients' investment objectives or that such investment opportunities will lead to completed investments by Clients. The activity of identifying, completing and realizing an attractive investment opportunity is highly competitive and involves a high degree of uncertainty. The Registrant and its Clients will compete for the acquisition of investments with many other investors, some of which are substantially larger and have considerably greater financial, technical and marketing resources than the Registrant and its Clients. For example, some investors may have a lower cost of funds and access to funding sources that are not available to the Registrant and its Clients. In addition, some investors may have higher risk tolerances or different risk assessments than the Clients do, which could allow them to consider a wider variety of investments and establish more portfolio relationships than the Registrant and its Clients. Such competitors may include other private investment funds and BDCs, as well as individuals, financial institutions and other institutional investors. In addition, the availability of investment opportunities generally will be subject to market conditions, as well as, in some cases, the prevailing regulatory or political climate. The Registrant may lose investment opportunities if it does not match its competitors' pricing, terms and structure. However, if the Registrant matches its competitors' pricing, terms and structure, it may experience decreased net investment income and increased risk of credit loss. As a result, the Registrant may not be able to take advantage of attractive investment opportunities from time to time.

Misconduct or Mistakes of Employees, Consultants and Third-Party Service Providers.

Misconduct or mistakes by employees, consultants or third party service providers of the Registrant and/or its affiliates, could cause significant losses to the Clients. For example, trade execution may result in errors and miscommunications with brokers and counterparties, and could result in losses to the Clients. Such misconduct or mistakes may include binding Clients to transactions that exceed authorized limits or present unacceptable risks, unauthorized trading activities, or concealing unsuccessful trading activities (which, in each case, may result in unknown and unmanaged risks or losses). Losses could also result from actions by third-party service providers, including failing to recognize trades and misappropriating assets, or, in the case of residential loans, improper foreclosure practices by servicers. In addition, employees, consultants and third-party service providers may improperly use or disclose confidential information, which could result in litigation or serious financial harm, including limiting Clients' business prospects or future marketing activities. In each such circumstance, the Registrant will evaluate the merits of potential claims for damage against any providers who are at fault and, to the extent practicable, will seek to recover losses from those parties. In its discretion, the Registrant may choose to forgo pursuing claims against providers on behalf of the Clients for any reason, including, without limitation, the cost of pursuing claims relative to the likely amount of any recovery and the maintenance of its business relationships with such providers. The Registrant does not exercise supervision over third-party service providers. Service providers are selected at the Registrant's sole discretion. The Registrant and/or its employees may have other relationships with service providers. For example, a service provider or its employees may be investors or Clients of the Registrant. No assurances can be given that the Registrant will be able to identify or prevent any misconduct or mistake.

Adverse Effects of Negative Publicity. Press coverage and other public statements that assert some form of wrongdoing, regardless of the factual basis for the assertions being made, may result in some type of investigation by regulators, legislators and law enforcement officials or in lawsuits. If the Registrant were to be subject to such press coverage or other statements, with resulting investigations or lawsuits, responding to such proceedings, regardless of the ultimate outcome of the proceeding, would be time consuming and expensive and could divert the time and effort of the Registrant's investment professionals. Adverse publicity could also have a negative impact on the Registrant's reputation and on the morale and performance of the Registrant's investment professionals, which could in turn adversely affect the performance of Clients' investments.

Counterparty Risk. The Registrant may effect transactions where the counterparties are not regulated broker-dealers. Examples of such transactions may include, without limitation, privately-sponsored transactions and private loans. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. This exposes the Clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Clients to suffer a loss. The lack of a meaningful and independent regulator of such counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Clients. In addition, the Clients may transact with counterparties located in various jurisdictions outside the United States. Such local counterparties are subject to the insolvency laws and regulations in the local jurisdictions.

In some cases, Clients or investment entities may co-invest with third parties through partnerships, joint ventures or other entities. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that a third-party may at any time have economic or business interests or goals that are inconsistent with those of the Clients, or may be in a position to take action contrary to the investment objectives of the Clients. In addition, the Clients may in certain circumstances be liable for actions of such third-party.

Energy-Related Investments. Clients may invest in energy-industry assets and businesses, which are typically regulated to varying degrees. In addition to restrictions imposed by environmental regulators, statutory and regulatory requirements may include those imposed by energy, zoning, land use, safety, labor and other regulatory or political authorities. It is possible that changes to applicable regulations or regulatory practice could have adverse consequences for investments. Certain energy-industry assets and businesses may be subject to financing and other support from national, state and local governments and regulatory agencies. The elimination of, or reduction in, such financial and other support could have a material adverse effect on the relevant company's financial condition or results of operation. Ordinary operation or the occurrence of an accident, with respect to an energy asset, could cause environmental damage, which may result in significant financial distress to such asset. Certain environmental laws and regulations may require that an owner or operator of an energy asset address prior environmental contamination, which could involve substantial cost. Companies may be exposed to substantial risk of loss from environmental claims or protests.

Reliance on Third-Party Company Management. The Registrant is not responsible for the day-to-day operations of each portfolio investment in which the Clients invest. The issuer's management team may have interests which may at times conflict with the interests of the Clients. Although the Registrant generally intends to invest in companies operated by strong management, there can be no assurance that the existing management team of any portfolio investment, or any successor thereto, will be able to operate the issuer in accordance with the Clients' expectations.

Enhanced Scrutiny and Regulations of Private Fund Advisers. Enhanced oversight and regulation by various governmental bodies is creating enhanced compliance risks. Many of the regulators, including governmental agencies and self-regulatory organizations, are empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease and desist orders or the suspension or expulsion of applicable licenses or members. Even if an investigation or proceeding did not result in a sanction against the Registrant or its Clients, or if it were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm the Registrant or the Clients' reputations, which may adversely affect the Clients' ability to obtain favorable financing or consummate potentially profitable investments. Additional global legislative and regulatory action is possible. Such risks are often difficult or impossible to predict, avoid or mitigate in advance. Any changes in the regulatory framework applicable to the Registrant or the Clients may impose additional expenses, require the attention of senior management, or result in limitations in the manner in which the investment business is conducted. Additional regulation could also increase the risk of third-party litigation. It is anticipated that, in the normal course of business, the Registrant will have contact with governmental authorities and/or may be subjected to responding to inquiries or examinations.

ERISA. Clients that constitute “plan assets” within the meaning of the plan asset regulations set forth in 29 C.F.R. Section 2510.3-101 as promulgated under the U.S. Employee Retirement Income Security Act of 1974 (as amended, “**ERISA**”) (and therefore are subject to ERISA’s fiduciary obligations and prohibited transaction rules) will be subject to significant investment limitations and restrictions that will not be applicable to other Clients. Additionally, due to ERISA considerations, the Registrant may elect not to allocate an investment opportunity in an issuer to an ERISA Client, notwithstanding that such investment opportunity might otherwise be appropriate and permissible for such ERISA Client, if, for example, other Clients are invested (or plan to invest) in a different part of such issuer’s capital structure, which could result in a potential (or actual) conflict of interest for the Registrant in the event of a restructuring of such issuer, as further described under *Investing on Behalf of Multiple Clients* above.

Service Providers. Certain advisors and other service providers, or their affiliates (including accountants, administrators, lenders, bankers, brokers, attorneys, consultants and investment or commercial banking firms), to Clients may also provide goods or services to or have business, personal, political, financial or other relationships with the Registrant. Such advisors and service providers may be investors in the Registrant’s Clients, may be sources of investment opportunities for the Registrant or may otherwise be co-investors with or counterparties to transactions involving the foregoing. These relationships may influence the Registrant in deciding whether to select or recommend any such advisor or service provider to perform services (the cost of which will generally be borne directly or indirectly by the Clients, as applicable). Notwithstanding the foregoing, the Registrant will generally seek to engage advisors and service providers on the basis of the overall quality of advice and other services provided.

Disciplinary Information

The Registrant and its management persons have not been involved in any legal or disciplinary events in the past 10 years that the Registrant believes would be material to a Client’s or a prospective client’s evaluation of the Registrant’s advisory business or the integrity of its management or its management persons.

Other Financial Industry Activities and Affiliations

From time to time, certain of the Registrant’s employees may serve on various creditor committees or as directors of privately held or publicly traded companies in which Clients invest. Clients should be aware of the fact that receipt of material non-public information, whether through such positions or otherwise, could preclude the Registrant from effecting discretionary transactions on behalf of Clients in certain securities.

The Registrant’s investment advisor affiliates include Oak Hill Special Opportunities Management, LLC (“**OHSOM**”). OHSOM is a joint venture management company formed in 2002 by the Registrant and Oak Hill Capital Management, LLC, an unaffiliated investment advisor, to provide investment advisory services for investments in financially distressed companies to certain private investment funds. These funds have concluded their investment period according to their terms. Additional affiliated investment advisers are set out in Part 1A of the Registrant’s Form ADV.

For purposes of the Advisers Act, the Registrant exercises supervision and control over, and takes responsibility for the investment advice given by, its affiliates, and the Registrant considers all such affiliates' clients to be Clients. Notwithstanding the foregoing, OHSOM is jointly supervised by the Registrant and Oak Hill Capital Management, LLC, which is not an affiliate of the Registrant.

WSI Otter (H), LLC and WSI OHA (S), LLC, investment vehicles ultimately controlled by investment funds managed by the Wafra group, are limited partners in the Registrant.

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

The Registrant and/or its affiliates have multiple advisory, transactional, financial and other interests that may conflict with those of its Clients (and the investors therein). For example, the Registrant or an affiliate thereof may, subject to legal and fiduciary obligations, sponsor, form or manage additional investment vehicles in the future to pursue particular investment opportunities. The Registrant and/or its affiliates are not restricted from allocating investment opportunities to or forming other Clients or from engaging in other business activities, even though such activities may be in competition with existing Clients and/or may involve substantial time and resources of the Registrant and/or its affiliates. For each Client, there can be no assurance that the Registrant and/or its affiliates will resolve all conflicts of interest in a manner that is favorable to such Client.

Although neither the Registrant nor its affiliates are engaged by a Client to advise them as to the appropriateness of investing in future investment vehicles managed or sponsored by the Registrant, because of the Registrant's or its affiliates' relationship to those investment vehicles, should a Client invest, the Registrant could be considered, indirectly, to have recommended that investment to such Client.

The Registrant may cause Clients to invest in a security or an issuer (*e.g.*, a pooled investment vehicle) in which the Registrant and/or a related person has a direct or indirect economic interest. In making such a decision, the Registrant may have been incentivized to cause Clients to invest in such security or issuer partially because of such direct or indirect economic interest therein. In addition, the Registrant and/or a related person may from time to time hold direct or indirect economic interest in companies (1) to whom the Registrant and/or its affiliates direct work for the benefit of one or more Clients, and for which the expense is payable by one or more Clients, (2) that are investors in a Client, and/or (3) that make investments that are within the investment mandates of the Registrant's Clients. The Registrant manages any potential conflicts of interest.

Certain of the related persons of the Registrant may hold interests in investment vehicles, including vehicles associated with Other Oak Hill Entities or the Wafra group. From time to time, the Registrant may recommend or cause a Client to invest in an issuer that is related to such entities and/or which has a representative of the Other Oak Hill Entities (or their affiliates) or the Wafra group serving as an officer, director or advisor (or in a comparable position), or in a security made available to the Registrant by such entities. On occasion, the Registrant may be offered the opportunity to make such investments for Clients at a discount. Clients will not have the right to

participate in any investment opportunity presented by or to or available to the Other Oak Hill Entities or the Wafra group.

The Registrant or a related person may purchase a security or other instruments issued by the same issuer as that held by a Client or recommended by the Registrant. Such purchases may be made through a co-investment vehicle.

In addition, where the Registrant or an affiliate of the Registrant serves as the general partner and/or investment advisor of a Client, the Registrant may be considered to be participating in transactions effected for those Clients. In connection with the risk retention rules, the Registrant and/or an affiliate thereof may be required to invest in and retain certain investments amounts in Affiliated CLOs, or to originate loan obligations for the benefit of Affiliated CLOs. These requirements as they relate to Affiliated CLOs in the United States may cease to be applicable, based on a recent appellate court ruling. See *Methods of Analysis – Risk of Loss – Business Risks – Business and Regulatory* herein for more information.

The Registrant has adopted a Code of Ethics and Personal Trading Policy. Among other things, this policy requires that employees act with integrity, place the interests of Clients above their own, avoid actual and potential conflicts of interest and comply with applicable provisions of relevant securities laws. This policy also requires employees to pre-clear certain personal securities transactions, report certain personal securities transactions on at least a quarterly basis and provide the Registrant with a detailed summary of certain holdings annually.

A copy of the Registrant's Code of Ethics and Personal Trading Policy shall be provided to any Client or qualified prospective client or investor upon request.

Brokerage Practices

A. Best Execution

The Registrant's selection of a broker-dealer to execute Client transactions is based primarily upon a broker-dealer's ability to deliver best execution for the Registrant's Clients for the relevant transactions. Factors that the Registrant may use in selecting a broker-dealer include the price per unit of the security or other instrument, a broker-dealer's execution capabilities, commission rates, the value of advice and research reports, a broker-dealer's ability to deliver prompt, accurate confirmations and on-time delivery of securities or other instruments, a broker-dealer's ability to maintain confidentiality of the Registrant's trading intentions, and any other factors that the Registrant determines to be relevant and appropriate. The commissions or transaction costs (including spreads) charged by any broker-dealer may be greater than the amount another firm might charge if the Registrant determines in good faith that the amount of such commission is reasonable in relation to the value of the brokerage services and research information provided by the broker-dealer.

1. Soft Dollars

The Registrant receives advice and research reports from broker-dealers who may execute portfolio transactions. This research may be used to service one or more of the Registrant's Clients. Research or brokerage services may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities or other instruments, online quotations, news and research services, access to an electronic communication network for order entry and account information, participation in broker-dealer sponsored research conferences and other services providing lawful and appropriate assistance to the Registrant in the performance of its investment decision-making responsibilities on behalf of its Clients. If a particular broker-dealer's research contributed to the investment research process, transactions may be directed to such broker-dealer, assuming such broker-dealer meets the aforementioned criteria. The Registrant does not formally commit to provide any particular level of commissions (or markups or markdowns) to broker-dealers who provide research services. The Registrant understands that the benefits received through its relationship with broker-dealers generally do not depend upon the amount of transactions directed to, or the amount of assets custodied by, such broker-dealers. Receipt of such research or other products or services may create an incentive for the Registrant to select or direct more business to particular broker-dealers. However, the Registrant will execute trades in accordance with the best execution principles outlined above. The Registrant also pays certain broker-dealers for research services provided, including in connection with compliance with the Markets in Financial Instruments Directive II in Europe.

2. Brokerage for Client Referrals

The Registrant may effect transactions or otherwise utilize broker-dealers that have, or whose affiliates have, referred or recommended investors to it (including via capital introduction programs) and broker-dealers or registered representatives of broker-dealers that personally or through related persons or family members have investments in funds managed by the Registrant. The foregoing may create an incentive for the Registrant to direct more business to these broker-dealers in order to generate future referrals or additional affiliated investments. However, the Registrant will execute trades in accordance with the best execution principles outlined above.

3. Directed Brokerage

The Registrant does not routinely recommend, request or require that Clients direct the Registrant to execute transactions through a specified broker-dealer. A separately managed account Client may seek to direct the brokerage or direct the terms of the trade for one or more trades for such account. In such a situation, the Registrant may be unable to achieve most favorable execution of the trades, with respect to the commissions (or spreads) or execution price.

B. Cross Transactions

The Registrant may also arrange for a transaction between certain Clients, in which one Client buys a security from, or sells a security to, the account of another Client ("**cross transactions**"). The Registrant receives no compensation (other than its management and performance-based fees), directly or indirectly, for effecting a particular cross transaction.

The Registrant engages in cross transactions only after determining the transaction is in the best interest of each participating Client and that the securities or other instruments are suitable and appropriate for each participating Client. The Registrant will generally not execute cross transactions through a broker-dealer; however, in the instances when a broker-dealer is used, the Registrant seeks to ensure that the compensation paid to the broker-dealer to execute these types of transactions is reasonable and commensurate with the level of services being provided. Notwithstanding the foregoing, two or more separately managed account Clients may specifically direct the execution of one or more specific cross transactions between such accounts, where such Clients are represented by a single entity in their interactions with the Registrant.

The Registrant may arrange cross transactions at its discretion. Cross transactions do not require Client consent, unless otherwise set forth in the Client investment advisory agreements and/or other constituent documents. For pooled funds or certain single investor mandates, the Registrant may be authorized to appoint a committee that has the ability to approve or disapprove certain related party transactions and certain other transactions and matters involving potential conflicts of interest that the Registrant deems to be material. Such committee may approve of such transactions prior to or contemporaneous with, or ratify such transactions subsequent to, the consummation of such transactions, and the relevant Clients' investors and the Client will be bound by the decisions of such committee. The person(s) so selected on such committee may be exculpated and indemnified by the Client and their expenses may be reimbursed by the Client, in each case, subject to the investment advisory agreements and/or other constituent documents.

C. Bunched Orders and Trade Allocation

Orders for the same security or obligation entered on behalf of more than one eligible Client will generally be aggregated. Aggregating orders across Clients could, among other adverse consequences, affect the prices of and the availability of the securities or other obligations in which any Client invests. Generally, all Clients participating in each aggregated trade shall receive the average price and, subject to minimum ticket charges (if any), pay a *pro rata* portion of commissions and/or execution costs. If an aggregated order is filled across multiple trades at different prices, the Clients may (or may not) be allocated on an average price basis.

The Registrant considers a number of factors when allocating trades among Clients. Initial allocation amounts for purchases among Clients is generally based on both (i) available cash (which includes available cash, unfunded capital commitments and, at the discretion of the Registrant, leverage) and (ii) maximum issuer size. The maximum issuer size will be determined at the discretion of the Registrant, taking into consideration Client guidelines and other applicable factors.

Following the determination of the initial allocation, other factors may be considered by the Registrant, as it deems appropriate, in making final allocation determinations among Clients, including, but not limited to, investment objectives, the timing of capital inflows and outflows and anticipated capital commitments, subscriptions and distributions and/or withdrawals, liquidity, yield, transaction costs, transaction-specific minimum investment obligations, eligibility requirements, and/ or other statutory or contractual restrictions or obligations, portfolio diversification, relative market or industry exposure, tax efficiencies and potential adverse tax consequences, regulatory, policy and/or other restrictions applicable to participating Clients and/or

to their investors, the avoidance of odd lots or a *de minimis* allocation to one or more of the participating Clients, the risk profile of an investment opportunity and the applicable Clients, the type of asset (*e.g.*, loan versus equity), the capital available for the investment opportunity, and any other factors similar to the foregoing or any other considerations deemed relevant by the Registrant. The Registrant in certain situations will adjust trade allocations in cases where it is limited in its ability to allocate across all Clients. Subsequent purchases of an investment may be allocated based on the relative existing positions in such investment among Clients. For trades less than or equal to \$10 million market value (or, for assets denominated in euro or sterling, €10,000,000 or £10,000,000, respectively), the Registrant may allocate to one or more Clients in a fair and equitable manner, as determined by the Registrant in good faith. The Registrant considers ongoing transaction costs and liquidity considerations for small lot sizes (*e.g.*, the Registrant will take into account assignment costs that materially affect the cost to transact).

Based on the foregoing investment allocation methodology, a Client with higher available cash than a similarly sized or even larger sized Client will, if the maximum issuer size is equal, have a higher initial allocation percentage to an investment. Also, a Client with a larger maximum issuer size than a similarly sized or even larger size Client will, if the amount of available cash is equal, have a higher initial allocation percentage to an investment.

The outcome of any allocation determination by the Registrant and its affiliates may result in the allocation of all or none of an investment opportunity to a Client. There can be no assurance that a Client will have an opportunity to participate in certain investments that fall within the Client's investment objectives. The Registrant's Trade Allocation Policies and Procedures may be amended by the Registrant at any time at its discretion.

Furthermore, the Registrant's Clients may invest in certain investment strategies, and then the Registrant may subsequently offer Clients the same or similar investment strategies through stand-alone vehicles, which may serve as primary or exclusive vehicles for such investment strategies. Any opportunity to invest in such a stand-alone vehicle will be considered for all Clients who invested previously in such investment strategies, in accordance with the Registrant's Trade Allocation Policies And Procedures, as described above, and taking into account the relevant factors, including the length of the investment period and any applicable post-investment period term of each Client. As a result, a Client that is approaching the end of its investment period may not be allocated investment opportunities that have longer investment time horizons or that are more illiquid, even if such opportunity is otherwise an eligible investment.

In some cases, management fees are based on invested capital (and not on cash or committed capital), and the Registrant could be incentivized to favor allocations to such Clients, to use leverage (if permitted) for such Clients in order to ramp them more quickly, and to hold onto investments longer in order to continue to earn management fees. Similarly, in the case of Clients that pay management fees solely based on called capital, the Registrant could be incentivized to call capital early and to favor allocations to such Clients.

With respect to the BDC Client, the 40 Act prohibits certain "joint" or "principal" transactions between the BDC Client and certain affiliates of the BDC Client, including certain Clients of the Registrant. Such prohibited transactions may include investments in the same portfolio investment

(whether at the same or different times) or the BDC Client buying or selling any security directly from or to another Client of the Registrant (or under certain circumstances, from or to a portfolio company of such Client). Despite compliance with the 40 Act, potential conflicts of interest may arise in the portfolio holdings held by the BDC Client and other Clients. These prohibitions may limit the scope of investment opportunities that would otherwise be available to the BDC Client and other Clients.

D. Standard of Care and Trade Errors

In general, Client investment advisory agreements and/or other constituent documents provide that (i) the Registrant, affiliates of the Registrant and their respective affiliates, officers, directors, employees, direct or indirect partners, managers, trustees, members, shareholders, agents and/or legal representatives, (ii) any person or entity (as applicable) who serves at the request of the Registrant on behalf of a Client as an officer, director, employee, direct or indirect partner, manager, trustee, member, shareholder, agent and/or legal representative of any other person or entity (as applicable), including, without limitation, any alternative investment vehicle or any issuer, (iii) any controlling person, assignee or successor of any of the foregoing, (iv) any employee of a Client and (v) any advisory committee of a Client (each, a “**Registrant Person**”) will not be liable in damages or otherwise to a Client or to any investor therein for any act or omission by it in connection with such Client’s activities, except for any liability that results from a Registrant Person’s own gross negligence or willful misconduct, unless otherwise agreed to in the investment advisory agreements and/or other constituent documents or as required by applicable law, provided that any exculpation or indemnification provision(s) in a Client’s investment advisory agreement and/or other constituent documents will not be construed to provide for the exculpation or indemnification of any Registrant Person for any liability (including liability under U.S. federal securities laws which, under certain circumstances, impose liability even on persons that act in good faith), claims, damages or losses to the extent (but only to the extent) that such liability, claims, damages or losses may not be waived, modified or limited under applicable law, but will be construed so as to effectuate such provisions to the fullest extent permitted by law. Subject to the investment advisory agreements and/or other constituent documents of a Client, this standard of care will result in a Client bearing the costs of any trade errors committed by a Registrant Person, so long as the errors do not evidence gross negligence or willful misconduct. Examples of trade errors that may be committed by investment advisors include executing a purchase instead of a sale (or *vice versa*), marking a short sale as a long sale, purchasing or selling a security or other instrument in the incorrect amount, or purchasing or selling the wrong security or other instrument. Although a broker-dealer may choose to assume responsibility for a trade error loss caused by the Registrant, the Registrant is prohibited from obtaining a broker-dealer’s agreement to do so in exchange for the Registrant’s promise to direct future commissions to such broker-dealer.

Review of Accounts

Clients are reviewed by the relevant Portfolio Manager(s) who are responsible for the strategies applicable to each Client, and other appropriate investment, operations, legal and compliance and accounting personnel on a regular basis. Matters reviewed include the specific investments held by each Client, the percentage of assets in various types of asset classes, the financial and regulatory

reporting relating to investments, the relative and absolute performance of each Client account and liquidity, leverage and counterparty exposure of each Client account.

With respect to the pooled funds and CLOs for which the Registrant serves as general partner and/or investment advisor, the Registrant may provide regular reports to investors invested in such Clients, as specified in the applicable investment advisory agreement and/or other constituent documents.

For audited funds (other than as described below), the Registrant or the administrator delivers to each investor therein audited financial statements of such fund within 90 or 120 days (as applicable) of the conclusion of such fund's fiscal year-end, as well as (as applicable and subject to such fund's investment advisory agreement and/or other constituent documents) an audited balance sheet of such fund, a statement of net income or net loss for such fiscal year, a statement of cash flows, a statement of each investor's capital account and the amount of each investor's share in such fund's taxable income or loss for each such year. In addition, for some funds, within 30 days of the end of each month, each investor therein receives an unaudited statement of such investor's investment in such fund and changes thereto for the month. Also, for some funds, within 45 to 60 days of the end of each of the first three quarters of each fiscal year, each investor therein receives an unaudited statement of such investor's investment in the fund and changes thereto for the quarter.

For "cash flow" CLOs, the trustee delivers monthly reports to each investor therein detailing compliance with covenants specified by the applicable indenture and related documents. Further, the issuer delivers information to each investor such that it can determine its respective share of taxable income or loss for each fiscal year. In addition, the Registrant may also deliver periodic reports describing significant events and providing performance results, as required by the investment advisory agreement and/or other constituent documents of the applicable CLO.

With respect to each separately managed account for which the Registrant serves as the investment adviser, the Registrant delivers to each Client monthly, quarterly and/or annual performance reports, as applicable, including information relating to the trading activity in the account during such period and the holdings of the account at the applicable reporting date.

In addition to the foregoing reports and statements, the Registrant may also enter into side letter arrangements with respect to additional transparency for certain Clients (and investors therein).

For each Client, the Registrant will not assign (as that term is defined under the Advisers Act) its investment advisory contract with such Client without the prior written consent of such Client, other than to an affiliate of the Registrant.

Client Referrals and Other Compensation

The Registrant may, from time to time, agree to compensate certain financial institutions and other placement agents and solicitors for helping the Registrant raise capital. Such placement agents and solicitors may also provide other services to Clients, for which they may be compensated.

Certain unaffiliated third parties may refer Clients to the Registrant, or refer investors to fund Clients sponsored or managed by the Registrant. The Registrant does not compensate such

unaffiliated third parties separately for any referrals, absent a placement agent, solicitation or other similar arrangement. Such referring third parties may have other business or personal relationships with the Registrant and/or its affiliates, such as being invested in the Registrant's fund Clients, being sources of investment opportunities for the Registrant, or providing other services to the Registrant. In addition, certain portfolio companies may make discounts available to the Registrant and its employees.

Custody

Client funds and securities are held in custody with unaffiliated broker-dealers or banks, as required; however, the Registrant may have access to Client custody accounts, as authorized pursuant to an investment advisory agreement or because an affiliate of the Registrant serves as the general partner of a fund Client or a related special purpose vehicle (together, "**Investment Entities**"). Investment Entity Clients may be subject to an annual audit; if so, the audited financial statements are distributed to each investor in the relevant Investment Entity Clients. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 90 or 120 days (as applicable) of the Investment Entity Client's fiscal year end.

For Investment Entity Clients not subject to an annual audit and separately managed account Clients, in each case, for which the Registrant is deemed to have custody, a qualified independent accounting firm will conduct an annual surprise examination on the holdings over which the Registrant has custody, and the investors in such Investment Entity Clients and such separately managed account Clients receive quarterly account statements from the custodians with regard to such holdings. Clients that receive account statements directly from a custodian should carefully review these account statements. The Registrant generally does not act as custodian or otherwise take or retain possession, custody, title or ownership of separately managed account Clients. In such cases, the Registrant is not authorized to receive any Client assets and, notwithstanding anything in the Client investment advisory agreement, the custody agreement(s) and/or other constituent documents to the contrary (including any authority granted to the Registrant pursuant to such documents), is not deemed to maintain custody of such Client's assets, as the term "**custody**" is defined in Rule 206(4)-2 under the Advisers Act.

Investment Discretion

The Registrant generally has discretionary authority to determine, without obtaining specific consent from Clients, the instruments and amount to be bought or sold on behalf of a Client. Any limitations on authority are included in a Client's investment advisory agreement and/or other constituent documents, and in any side letters that are executed with investors.

The Registrant and the general partners of, and investors in, certain funds managed by the Registrant are authorized, without the approval of any investor, to enter into side letters or similar written agreements with investors that have the effect of establishing rights under, or altering or supplementing the terms of, the investment advisory agreement and/or other constituent documents. Rights that may be established and terms that may be altered or supplemented include, without limitation, rights and terms relating to greater portfolio transparency, fee waivers or reductions, minimum investment amounts, reports and other information, confidentiality, timing of funding,

expenses, distributions, legal or regulatory requirements (*e.g.*, tax and ERISA), advisory committee membership, as applicable, and other more favorable investment terms such as withdrawal rights. To the extent that compliance with any of the provisions of any side letters or similar written agreements would cause the Registrant and/or its affiliates to violate their respective fiduciary duties or obligations or to violate any applicable laws, any non-compliance with any such provision will not be deemed to be a breach of such written agreements.

Voting Client Securities

The Registrant has implemented written policies and procedures governing voting Client proxies (the “**Proxy Voting Policy**”). When agreed upon with a Client, the Registrant will be responsible for voting Client proxies relating to equity securities. Pursuant to the Proxy Voting Policy, the Registrant is to vote Client proxies in the interest of maximizing shareholder value, or in certain cases, pursuant to written proxy voting guidelines of such Client. The Registrant generally maintains voting discretion with respect to Client proxies, subject to the applicable investment advisory agreement and/or other Client constituent documents. The appropriate investment professional of the Registrant assigned to such proxy vote, as well as applicable Partners, must disclose to the Chief Compliance Officer or Compliance Officer, as well as the applicable operations manager, whether such individuals are aware of any potential conflicts of interest related to the specific proxy they are voting. All material conflicts of interest will be addressed in a manner deemed appropriate by the Registrant, acting in good faith. The Registrant maintains a record of all proxy votes cast on behalf of Clients. Clients may contact the Registrant for a copy of the Proxy Voting Policy or information with respect to a specific proxy vote.

Financial Information

The Registrant has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to meet the Registrant’s contractual commitment to its Clients.