



## **Princeton Advisory Group Inc.**

**700 Alexander Park, Suite 103**

**Princeton, NJ 08540**

**Tel: (609) 514-9200**

**Fax: (609) 514-0330**

### **FIRM BROCHURE (PART 2A OF FORM ADV)**

This Brochure provides information about the qualifications and business practices of Princeton Advisory Group Inc. If you have any questions about the contents of this brochure, please contact us at the number above.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Additional information about Princeton Advisory Group Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with SEC or any state authority does not imply any particular level of skill or training.

We have included in this brochure references to products such as private investment funds solely for the purpose of describing our advisory business. This brochure is not intended as an offer of any of these products, which are privately offered only to qualified investors.

**October 25, 2017**

## ITEM 2. MATERIAL CHANGES

In this Item 2, we are required to identify and discuss all material changes since our last annual update of Part II of Form ADV, or to include these changes in a separate document accompanying this Brochure.

This section will be amended annually, as necessary, to identify and discuss material changes to the Brochure since the previous release of the Brochure.

**Since Princeton's last filing of its ADV Part 2 on March 24, 2017,** The CEO and founder of PAG, Munish Sood, was named in a criminal complaint alleging his unlawful involvement in an ongoing investigation concerning the basketball programs of various universities and colleges, and an alleged scheme to steer talented student athletes, upon their graduation, and after being drafted by the NBA to Mr Sood's firm for investment advisory services and to other, unrelated entities for other services. Mr. Sood is vigorously defending these allegations. Nevertheless, in the interests of avoiding an adverse impact on the advisor firm, Mr. Sood has resigned his position as an officer and is not involved in the day to day management of Princeton. Additionally, Mr. Sood is exploring his options to sell or transfer his ownership in the company.

### ITEM 3. TABLE OF CONTENTS

	<u>Page</u>
Item 4. Advisory Business.....	1
Item 5. Fees and Compensation.....	3
Item 6. Performance-Based Fees and Side-By-Side Management .....	4
Item 7. Types of Clients.....	5
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss.....	5
Item 9. Disciplinary Information .....	17
Item 10. Other Financial Industry Activities and Affiliations .....	19
Item 11. Code of Ethics and Participation or Interest in Client Transactions; Personal Trading.	20
Item 12. Brokerage Practices .....	22
Item 13. Review of Accounts .....	23
Item 14. Client Referrals and Other Compensation .....	24
Item 15. Custody .....	24
Item 16. Investment Discretion .....	255
Item 17. Voting Client Securities.....	255
Item 18. Financial Information.....	27

## ITEM 4. ADVISORY BUSINESS

Princeton Advisory Group, Inc. ("Princeton" or "PAG") is an investment adviser that is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Princeton was founded by Munish Sood and two other principals to offer fixed income investment solutions to high net worth and institutional clients. The firm focuses on investing across multiple asset classes including high yield bonds, bank debt (floating rate securities), investment grade bonds, agency and nonagency mortgage backed securities. Mr. Sood is presently the sole owner of the firm.

Princeton provides investment advisory and management services to Funds (registered and unregistered), a Business Development Company ("BDC"), special purpose vehicles ("SPV") or CDO type Investments, as well as via separately managed account arrangements to larger investors (including insurance companies, corporations and special purpose entities) upon request.

### **Unregistered Funds**

Typically, Princeton advises Funds that invest a significant portion of their assets in fixed-income or floating-rate securities and/or securities similar to the investments of the CDO-type entities described above.

Princeton provides investment advisory services (and generally also serve in a management role, such as the position of "Manager," "Managing Member," "General Partner" and/or a "Director") to a number of pooled investment vehicles that rely on exemptions from registration as "investment companies" by virtue of Section 3(c)(1) and/or 3(c)(7) of the 1940 Act. Investors in these vehicles must meet a number of suitability requirements, such as having a specified minimum net worth. These pooled investment vehicles ("Funds" or "Hedge Funds") include domestic and offshore (British Virgin Islands) entities.

### **Registered Funds**

Princeton also serves as sub-advisor to the Catalyst/Princeton Floating Rate Fund and the Catalyst/Princeton Unconstrained Hedged Income Fund; both are registered as an open-end investment company. There are three share classes for each fund; For the Catalyst/Princeton Floating Rate Fund: an A share (ticker: CFRAX), a C share (ticker: CFCX), and I share (ticker: CFRIX); for the Catalyst/Princeton Hedged Income Fund: an A share (ticker: HIFAX), a C share (ticker: HIFCX), and I share (ticker: HIFIX). For more information regarding these funds or to get a prospectus, please call 1-866-447-4228 or e-mail [Info@CatalystMutualFunds.com](mailto:Info@CatalystMutualFunds.com). Information is also available on the Internet at [www.catalystmutualfunds.com](http://www.catalystmutualfunds.com). Investors should read the prospectus carefully before investing.

## **Business Development Company**

Princeton acts as the sole investment adviser to a publicly-traded investment company that has elected to be regulated as business development companies (“BDCs”) under the Investment Company Act of 1940, as amended (the “1940 Act”).

## **CDO Type Vehicles**

We serve as the collateral manager to special purpose vehicles (“SPV”) that issue collateralized loan obligations (such vehicles, “CLOs”) or collateralized debt obligations (“CDO”).

A CDO-type investment, where the underlying portfolio consists of bonds, is often referred to as a “CBO” (collateralized bond obligation). Where the underlying portfolio is composed of loans, they are often referred to as “CLOs” (collateralized loan obligations). An alternative form to the traditional CDO is the “total return swap” (“TRS”) SPV where the counterparties swap the total return of a single asset or basket of assets in exchange for periodic cash flows, typically a floating rate +/- a basis point spread. For convenience sake, traditional CDO SPVs, CBO SPVs, CLO SPVs, TRS SPV vehicles and similar highly structured vehicles are sometimes referred to in this brochure as “CDO-type” vehicles.

Investment advisory services provided by PAG are conducted pursuant to the terms of (i) a collateral management agreement in the case of CDO type investments; (ii) pursuant to a limited partnership agreement in the case of Managed funds; (iii) pursuant the Prospectus in the case of Registered Funds; and (iv) pursuant to an investment management agreement in the case of the BDC and Separate Managed Accounts. These documents are negotiated prior to the commencement of the advisory relationship and set forth in the specific services that will be provided by PAG on behalf of the client. Each of the CDO type investments, unregistered and registered funds and managed accounts for which PAG provides investment advisory services may impose limitations on the types of securities in which PAG may invest.

Although PAG may delegate investment discretion to other unaffiliated advisors (“Sub-Advisors”); upon client request and/or approval, it will manage substantially all client assets directly.

Princeton does not participate in wrap fee programs.

As of December 31, 2016, Princeton managed assets in the amount of approximately \$579,664,000, on a discretionary basis.

## **ITEM 5. FEES AND COMPENSATION**

Our fees are negotiable depending on the nature of the assets to be managed, the time that actual management is allowed and other factors. Fees paid to Princeton by clients are always paid in arrears, not in advance. Typically, management fees are paid quarterly (but, depending on what the organizational documents or Management Agreement, may be paid monthly). Performance based fees or allocations are typically paid or (as the case may be) allocated on an annual basis.

### **Unregistered Funds**

Princeton manages and advises Funds that offer a variety of fees based on the nature of the intended investments, intensity of the analysis required, and expected size of the Fund. The standard arrangement is for each Fund to pay Princeton a 1.5% management fee and a 20% performance-based allocation or fee. Certain Funds pay Princeton reduced amounts (due to Fund-specific “expense caps,” “hurdle rates” and/or lower fee and performance allocation ratios established for a specific Fund). Fees may be reduced or limited as to specific investors in a given Fund (for example, if after negotiation with Princeton, an investor is willing to invest \$10,000,000 or more in a given Fund and to agree to certain lock-ups during which withdrawals are not permitted). Fees for Fund investors are calculated by the funds Administrator, reviewed and approved by PAG and then deducted from the accounts of the Fund.

### **Registered Funds**

Fees for the sub-advisory services we provide to the registered funds are paid to us by the Advisor of the Fund.

### **Business Development Company**

Fees for our BDC Client are as stated in the investment management agreement established between Princeton and the BDC. BDC management fee is 1% of the Company’s gross assets and calculated by the Administrator.

### **CDO Type Vehicles**

For the CDO-type entities for which we provide investment advice in the role as the “Collateral Manager” or another similar title, the fees of Princeton are specified in the organizational documents of the SPV. Often, portions are paid in different levels of the SPV cash flow “waterfall.” Princeton is not the organizer of any CDO-type SPV. If Princeton serves as the initial Collateral Manager of a CDO-type SPV, it has some input as to the structure of its fees. In situations where Princeton was not the original Collateral Manager of a CDO-type SPV and is assuming the role of another manager who resigned or was removed, as a rule Princeton has no say as to the structure or amount of its fees paid by the SPV although holders of interests in the SPV are free to and do pay Princeton as their investment manager outside of the CDO. Fees for

CDO SPV clients are paid by the Trustee or other responsible party directly from the payment waterfall specified in the applicable SPV's operational documents.

### **Managed Accounts**

Fees for separately managed accounts are negotiable and follow the same general standards noted above for the Funds advised by Princeton and range from 0.45% to 2% of assets under management and may include a performance-based compensation component tied to realized and unrealized profits.

Clients with a separately managed account can select whether fees will be billed or deducted from their account. PAG generally charges fees quarterly in arrears based on the market value of assets under management at the end of each quarter. Fees are prorated for the first quarter, based on the number of days under management.

All Princeton clients will incur brokerage and other transaction related costs incurred with respect to transactions in their accounts. See **Item 12** for more information about Princeton's brokerage practices. See also **Item 14** concerning certain placement fees.

Fees and expenses charged to clients are specified in their investment agreements, organizational documents and appropriate private placement memoranda. Fees charged to Fund clients include: (i) costs associated with borrowing or trading on margin; (ii) fees for professional service such as legal, audit and accounting; (iii) fees paid for research, consulting and/or valuation services related to a specific investment; (iv) federal, state, local or foreign taxes, and any interest or penalties thereon; (v) fees related to custody and safekeeping of Fund assets and transfer agent services as needed; and other fees as may be specified in Fund documentation.

## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Princeton collects performance-based compensation that are fees or allocations based on a share of capital gains on or capital appreciation of the assets of a client, for each of its Fund clients, CDO type clients and, depending on specific arrangements, for separately managed accounts. Performance-based compensation is paid on a percentage of the investment performance, often in excess of a predetermined benchmark or annualized internal rate of return (IRR) that is calculated either annually or at the end of a predetermined contractual date.

The existence of performance-based compensation described in **Item 5** above may create an incentive for Princeton and its staff to recommend or approve more speculative investments on behalf of the Funds and/or separately managed accounts with performance-based compensation than would be the case in the absence of this arrangement. In addition, the performance-based compensation, if made, could result in allocations to Princeton which are greater than fees normally paid to other investment managers for similar services if such managers do not charge similar performance based compensation.

Princeton expects that, from time to time, various Funds and accounts advised by Princeton that employ performance-based compensation arrangements (which have differing performance-based percentages, arrangements and thresholds) and accounts advised by Princeton that do not employ performance-based compensation arrangements may participate in an investment opportunity at the same time. Princeton's internal policies require that any such allocation of investment opportunities be fair and equitable and that no participating entity or account receive preferential treatment over any other on the basis of whether Princeton is eligible to receive performance-based compensation or the terms of such compensation.

When presented with an investment opportunity, Princeton will assess the suitability of the investment for each Fund or account including the nature of the investment opportunity and the amount requested for each account. Its assessment takes into account, among other things, the Fund's or account's investment objectives and strategies, risk profile, tax status, diversification requirements, liquidity needs and available assets for investment. Princeton also assesses current market conditions and any other information relevant to the fair allocation of securities among the multiple potential investors.

## **ITEM 7. TYPES OF CLIENTS**

We provide investment advisory and management services to Funds (registered and unregistered), a Business Development Company ("BDC"), special purpose vehicles ("SPV") or CDO type Investments as well as via separately managed account arrangements to larger investors (including insurance companies and corporations).

The minimum subscription in our private Funds is typically \$1,000,000 (subject to waiver). Each SPV may set its own standards for the purchase of securities and is an aspect over which we have no control or influence. Our minimum for accepting a separately managed account is \$5,000,000 (subject to waiver).

Princeton Advisory Group, Inc. serves, in a limited non-discretionary role for two entities, whereby it stands ready to supervise the making of investments pursuant the written (or verbal) investment directions of such entities to the extent such entities may request assistance from time to time. Such arrangements are not reflected in listings of number of clients or assets under management.

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

Investing in securities involves risk of loss that clients should be prepared to bear. We strive to reach the best asset allocation for each of our clients; however, we cannot guarantee that our investment advice will lead to successful results.



### **Our standard investment strategies:**

Princeton employs a regimented investment strategy that focuses on creating value through selectively choosing assets for inclusion in the portfolio based on disciplined asset selection, and looks to maintain the value of those investments through proactive portfolio management. Our managers have the experience of managing assets over several economic cycles and have developed strong relationships with transaction originators and active financial sponsors.

Our general investment strategy ordinarily employs a five step investment selection and monitoring process that incorporates both qualitative and quantitative considerations with the goal of the preservation of capital. The team members consider preservation of capital as essential and strong credit analysis and evaluation skills are the foundation of their asset selection process. Thorough and continual analysis of issuer viability is the best way of preserving capital through business and economic cycles. We employ a pro-active portfolio management approach to asset selection and pursue both a “top down” industry view and a “bottom up” individual credit analysis and selection to maximize income and minimize losses. Credit analysis focuses on analyzing macroeconomic, industry and company specific information, utilizing outside research and internally generated opinions for ideas and information. The credit analysis process includes assessing the business model, cash flow, liquidity, firm valuation and management in our asset selection process in order to identify the best investments. Historical financial analysis and sensitivity case analysis of projections are also part of the process.

For actively managed portfolios Princeton maintains a disciplined approach to creating portfolio diversification, utilizing both internal proprietary systems and external systems, in addition to active credit monitoring and portfolio management. The objective is being able to anticipate and identify potential problems and issues that may develop with our investments before they occur in order to take quick action and maximize recovery. This practice has resulted in the ability to avoid default related losses and obtain higher recoveries.

### **Common sub-strategies (specific sub-strategies depend on a client’s investment management agreement and client arrangements):**

A commonly employed objective is to provide both current income and capital appreciation. In such a case, Princeton will often pursue its client’s objectives by investing primarily in the following categories of securities and instruments of corporations and other business entities: (i) secured and unsecured floating and fixed rate loans; (ii) bonds and other debt obligations; (iii) debt obligations of stressed, distressed and bankrupt issuers; (iv) structured products, including but not limited to, mortgage-backed and other asset-backed securities and collateralized debt obligations; and (v) reorganized corporate equities. Additionally, within the categories of obligations and securities in which Princeton may invest, Princeton may employ various trading strategies, including but not limited to, capital structure arbitrage, pair trades, and shorting. Princeton may also invest in these categories of obligations and securities through the use of derivatives. A significant portion of client assets may be invested in securities rated below investment grade, which are commonly referred to as “junk securities.”

Princeton selects investments from a wide range of trading strategies and credit markets in order to vary investments and to optimize the risk-reward parameters of our clients, not according to pre-determined allocations (unless required by a client). The investment team and other Princeton personnel use a wide range of resources to identify attractive individual investments and promising investment strategies for consideration in connection with investments.

Princeton will invest and trade in listed and unlisted, public and private, rated and unrated, debt and other obligations, including structured debt as well as financial derivatives. Investments may include investments in stressed and distressed positions, which may include publicly-traded debt, obligations that were privately placed with banks, insurance companies and other lending institutions, trade claims, accounts receivable and any other form of obligation recognized as a claim in a bankruptcy or workout process.

As part of a client's investment program, Princeton may invest from time to time in debt or synthetic instruments that are sold in direct placement transactions between their issuers and their purchasers and that are neither listed on an exchange, nor traded over the counter. Princeton may employ currency hedges (either in the forward or options markets) in certain circumstances to reduce currency risk and may engage in other derivative transactions for hedging purposes or to enhance total return.

From time to time, Princeton may also invest a portion of client assets in short-term U.S. Government obligations, certificates of deposit, commercial paper and other money market instruments, including repurchase agreements with respect to such obligations to enable Princeton to make investments quickly and to serve as collateral with respect to certain of its investments. A greater percentage of assets may be invested in such obligations if Princeton believes that a defensive position is appropriate because of the outlook for security prices or in order to respond to adverse market, economic business or political conditions.

**Common/routine investments made on behalf of clients:**

**Senior Loans.** Senior loans hold the most senior position in the capital structure of a business entity, are typically secured with specific collateral and have a claim on the general assets of the borrower that is senior to that held by subordinated debtholders and stockholders of the borrower. The proceeds of senior loans primarily are used to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, and, to a lesser extent, to finance internal growth and for other corporate purposes. Senior loans typically have rates of interest which are re-determined either daily, monthly, quarterly or semi-annually by reference to a base lending rate, plus a premium. These base lending rates generally are LIBOR, the prime rate offered by one or more major United States banks (Prime Rate) or the certificate of deposit (CD) rate or other base lending rates used by commercial lenders.

Loans and other corporate debt obligations are subject to the risk of non-payment of scheduled interest or principal. Such non-payment would result in a reduction of income to a client and a

reduction in the value of the investment. There can be no assurance that the liquidation of any collateral securing a senior loan would satisfy a borrower's obligation in the event of nonpayment of scheduled interest or principal payments, or that such collateral could be readily liquidated. In the event of bankruptcy of a borrower, a client could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing a senior loan. To the extent that a senior loan is collateralized by stock in the borrower or its subsidiaries, such stock may lose all or substantially all of its value in the event of the bankruptcy of a borrower. Some senior loans are subject to the risk that a court, pursuant to fraudulent conveyance or other similar laws, could subordinate senior loans to presently existing or future indebtedness of the borrower or take other action detrimental to the holders of senior loans including, in certain circumstances, invalidating such senior loans or causing interest previously paid to be refunded to the borrower. If interest were required to be refunded, it could negatively affect the investment performance of a client's portfolio. To the extent a senior loan is subordinated in the capital structure, it will have characteristics similar to other subordinated debtholders, including a greater risk of nonpayment of interest or principal.

Some loans in which clients may invest, and the issuers of such loan, may not be rated by a rating agency, will not be registered with the SEC or any state securities commission and will not be listed on any national securities exchange. The amount of public information available with respect to issuers of senior loans will generally be less extensive than that available for issuers of registered or exchange listed securities. In evaluating the creditworthiness of borrowers, Princeton will consider, and may rely in part, on analyses performed by others. Princeton does not view ratings as the determinative factor in its investment decisions and relies more upon its credit analysis abilities than upon ratings. Borrowers may have outstanding debt obligations that are rated below investment grade by a rating agency. A high percentage of senior loans held by a client may be rated, if at all, below investment grade by independent rating agencies. In the event senior loans are not rated, they are likely to be the equivalent of below investment grade quality. Debt securities which are unsecured and rated below investment grade (i.e., Ba and below by Moody's Investors Service, Inc. ("Moody's") or BB and below by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P")) and comparable unrated bonds, are viewed by the rating agencies as having speculative characteristics and are commonly known as "junk bonds." Because senior loans are senior in a borrower's capital structure and are often secured by specific collateral, Princeton believes that senior loans have more favorable loss recovery rates as compared to most other types of below investment grade debt obligations. However, there can be no assurance that a client's actual loss recovery experience will be consistent with Princeton's prior experience or that a client's senior loans will achieve any specific loss recovery rates. No active trading market may exist for many senior loans, and some senior loans may be subject to restrictions on resale. A secondary market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, which may impair the ability to realize full value on the disposition of an illiquid senior loan.

In the event of a bankruptcy or insolvency of a borrower, the obligation of the borrower to repay the senior loan may be subject to certain defenses that can be asserted by such borrower against a client as a result of improper conduct of the lender selling the participation. Investing in senior

loans involves investment risk. Some borrowers default on their senior loan payments. Princeton attempts to manage this credit risk through multiple different investments within the portfolio and ongoing analysis and monitoring of borrowers. A client investing in such products also is subject to market, liquidity, interest rate and other risks.

**Second Lien Loans.** Second lien loans are loans made by public and private corporations and other nongovernmental entities and issuers for a variety of purposes. Second lien loans typically are secured by a second priority security interest or lien to or on specified collateral securing the borrower's obligation under the loan and typically have similar protections and rights as senior loans. Second lien loans are not (and by their terms cannot) become subordinate in right of payment to any obligation of the related borrower other than senior loans of such borrower. Second lien loans, like senior loans, typically have adjustable floating rate interest payments. Because second lien loans are second to senior loans, they present a greater degree of investment risk but often pay interest at higher rates reflecting this additional risk. Such investments generally are of below investment grade quality. Other than their subordinated lien status, second lien loans have many characteristics and risks similar to senior loans discussed above. In addition, second lien loans of below investment grade quality share many of the risk characteristics of non-investment grade securities. As in the case of senior loans, Princeton may purchase interests in second lien loans for its clients through assignments or participations.

Second lien loans are subject to the same risks associated with investment in senior loans and noninvestment grade securities. Because second lien loans are second in right of payment to one or more senior loans of the related borrower, they therefore are subject to additional risk that the cash flow of the borrower and any property securing the loan may be insufficient to meet scheduled payments after giving effect to the senior secured obligations of the borrower. Second lien loans are also expected to have greater price volatility than senior loans and may be less liquid. There is also a possibility that originators will not be able to sell participations in second lien loans, which would create greater credit risk exposure.

**Unsecured Loans.** Unsecured loans are loans made by public and private corporations and other nongovernmental entities and issuers for a variety of purposes. Unsecured loans generally have lower priority in right of payment compared to holders of secured debt of the borrower. Unsecured loans are not secured by a security interest or lien to or on specified collateral securing the borrower's obligation under the loan. Unsecured loans by their terms may be or may become subordinate in right of payment to other obligations of the borrower, including senior loans, second lien loans and other secured loans. Unsecured loans may have fixed or adjustable floating rate interest payments. Because unsecured loans are subordinate to the secured debt of the borrower, they present a greater degree of investment risk but often pay interest at higher rates reflecting this additional risk. Such investments generally are of non-investment grade quality. Other than their subordinated and unsecured status, such investments have many characteristics and risks similar to senior loans, second lien loans and other secured loans discussed above. In addition, unsecured loans of noninvestment grade quality share many of the risk characteristics of non-investment grade securities. As in the case of secured loans, Princeton may purchase interests in unsecured loans through assignments or participations.

Unsecured loans are subject to the same risks associated with investment in senior loans, second lien loans, other secured loans and non-investment grade securities. However, because unsecured loans rank lower in right of payment to any secured obligations of the borrower, they may be subject to additional risk that the cash flow of the borrower and available assets may be insufficient to meet scheduled payments after giving effect to the secured obligations of the borrower. Unsecured loans are also expected to have greater price volatility than secured loans and may be less liquid. There is also a possibility that loan originators will not be able to sell participations in unsecured loans, which would create greater credit risk exposure.

**Investment Grade Securities.** Princeton may invest, on behalf of its clients, in a wide variety of bonds that are rated or determined by Princeton to be of investment grade quality of varying maturities issued by U.S. corporations and other business entities. Bonds are fixed or variable rate debt obligations, including bills, notes, debentures, money market instruments and similar instruments and securities. Bonds generally are used by corporations and other issuers to borrow money from investors for a variety of business purposes. The issuer pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before maturity. Certain bonds are “perpetual” in that they have no maturity date. Some investment grade securities, such as zero coupon bonds, do not pay current interest, but are sold at a discount from their face values.

Although more creditworthy and generally less risky than non-investment grade securities, investment grade securities are still subject to market and credit risk. Market risk relates to changes in a security’s value as a result of interest rate changes generally. Investment grade securities have varying levels of sensitivity to changes in interest rates and varying degrees of credit quality. In general, bond prices rise when interest rates fall, and fall when interest rates rise. Longer-term bonds and zero coupon bonds are generally more sensitive to interest rate changes. Credit risk relates to the ability of the issuer to make payments of principal and interest.

The values of investment grade securities like those of other debt securities may be affected by changes in the credit rating or financial condition of an issuer. Investment grade securities are generally considered medium and high-quality securities. Some, however, may possess speculative characteristics, and may be more sensitive to economic changes and to changes in the financial condition of issuers. The market prices of investment grade securities in the lowest investment grade categories may fluctuate more than higher-quality securities and may decline significantly in periods of general or regional economic difficulty. Like noninvestment grade securities, such investment grade securities in the lowest investment grade categories may be thinly traded, making them difficult to sell promptly at an acceptable price.

**Other Fixed Income Securities.** Princeton also may purchase, on behalf of its clients, unsecured loans, other floating rate or fixed rate debt securities such as notes, bonds and asset-backed securities (such as securities issued by special purpose funds investing in bank loans), investment grade and below investment grade fixed income debt obligations and money market instruments, such as commercial paper. The high yield securities in which Princeton invests are

rated Ba or lower by Moody's or BB or lower by S&P or are unrated but determined by Princeton to be of comparable quality. Debt securities rated below investment grade are commonly referred to as "junk securities" and are considered speculative with respect to the issuer's capacity to pay interest and repay principal. Below investment grade debt securities involve greater risk of loss, are subject to greater price volatility and are less liquid, especially during periods of economic uncertainty or change, than higher rated debt securities. Fixed-income securities may have fixed or variable principal payments and all types of interest rate and dividend payment and reset terms, including fixed rate, adjustable rate, zero coupon, contingent, deferred, payment in kind and auction rate features. Princeton may invest, on behalf of its clients, in fixed-income securities with a broad range of maturities.

**Non-Investment Grade Securities/Middle Market Securities.** Princeton may invest, on behalf of its clients, in securities rated below investment grade, such as those rated Ba or lower by Moody's and BB or lower by S&P or securities comparably rated by other rating agencies or in unrated securities determined by Princeton to be of comparable quality. Securities rated Ba by Moody's are judged to have speculative elements, their future cannot be considered as well assured and often the protection of interest and principal payments may be very moderate. Securities rated BB by S&P are regarded as having predominantly speculative characteristics and, while such obligations have less near-term vulnerability to default than other speculative grade debt, they face major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. Securities rated C are regarded as having extremely poor prospects of ever attaining any real investment standing. Securities rated D are in default and the payment of interest and/or repayment of principal is in arrears. Princeton may purchase securities rated as low as D or unrated securities deemed by Princeton to be of comparable quality.

Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The secondary market for lower grade securities may be less liquid than that of higher rated securities. Adverse conditions could make it difficult at times for Princeton to sell certain securities or could result in lower prices.

The prices of debt securities generally are inversely related to interest rate changes; however, the price volatility caused by fluctuating interest rates of securities also is inversely related to the coupon of such securities. Accordingly, lower grade securities may be relatively less sensitive to interest rate changes than higher quality securities of comparable maturity, because of their higher coupon. This higher coupon is what the investor receives in return for bearing greater credit risk. The higher credit risk associated with lower grade securities potentially can have a greater effect on the value of such securities than may be the case with higher quality issues of comparable maturity.

Lower grade securities may be particularly susceptible to economic downturns. It is likely that an economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and



pay interest thereon and increase the incidence of default for such securities. The ratings of Moody's and S&P and the other rating agencies represent their opinions as to the quality of the obligations which they undertake to rate. Ratings are relative and subjective and, although ratings may be useful in evaluating the safety of interest and principal payments, they do not evaluate the market value risk of such obligations.

Middle market companies have additional risks due to their limited operating histories, limited financial resources, less predictable operating results, narrower product lines and other factors. Securities of middle market issuers are typically considered high yield. "High yield" refers to the below investment grade quality (also commonly referred to as "junk bonds"). Middle market companies have additional risks due to their limited operating histories, limited financial resources, less predictable operating results, narrower product lines and other factors. Securities of middle market issuers are typically considered high yield. "High yield" refers to below-investment-grade quality (also commonly referred to as "junk bonds"). Middle market companies have additional risks due to their limited operating histories, limited financial resources, less predictable operating results, narrower product lines and other factors. Securities of middle market issuers are typically considered high yield. "High yield" refers to below-investment-grade quality (also commonly referred to as "junk bonds")

**Asset-Backed Securities.** Princeton may invest a portion of the assets of a client in asset-backed securities. Asset-backed securities are generally issued as pass-through certificates, which represent undivided fractional ownership interests in an underlying pool of assets, or as debt instruments, which are also known as collateralized obligations, and are generally issued as the debt of a special purpose entity organized solely for the purpose of owning such assets and issuing such debt. Asset-backed securities are often backed by a pool of assets representing the obligations of a number of different parties. Credit card receivables are generally unsecured, and the debtors are entitled to the protection of a number of state and federal consumer credit laws which give debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related automobile receivables. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, a client may not have an effective security interest in all of the obligations backing such receivables. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be able to support payments on these securities.

**Collateralized Loan Obligations and Bond Obligations.** Princeton may invest, on behalf of its clients, in asset-backed securities that are securitizing certain financial assets by issuing securities in the form of negotiable paper that are issued by a financing company (generally a SPV). These securitized assets are, as a rule, corporate financial assets brought into a pool according to specific diversification rules. In CLOs, the underlying assets, typically senior loans, are used as collateral supporting the various debt tranches issued by the SPV. Princeton may also invest in CBOs.

**Distressed Debt.** Princeton, on behalf of its clients, invests in the securities and other obligations of distressed and bankrupt issuers, including debt obligations that are in covenant or payment default. Such investments generally trade significantly below par and are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically, such workout or bankruptcy proceedings result in only partial recovery of cash payments or an exchange of the defaulted obligation for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

**Stressed Debt.** Princeton, on behalf of its clients, invests in securities and other obligations of stressed issuers. Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty.

**Credit Default Swaps.** Princeton may enter into credit default swap agreements on behalf of its clients. The “buyer” in a credit default contract is obligated to pay the “seller” a periodic stream of payments over the term of the contract provided that no event of default on an underlying reference obligation has occurred. If an event of default occurs, the seller must pay the buyer the “par value” (full notional value) of the reference obligation in exchange for the reference obligation. A client may be either the buyer or seller in the transaction. If a client is a buyer and no event of default occurs, the client loses its investment and recovers nothing. However, if an event of default occurs, the buyer receives full notional value for a reference obligation that may have little or no value. As a seller, a client receives income throughout the term of the contract, which typically is between six months and three years, provided that there is no default event.

**Senior Loan Based Derivatives.** Princeton may obtain exposure to senior loans and baskets of senior loans for a client through the use of derivative instruments. Such derivative instruments have recently become increasingly available. For example, Princeton may invest in a derivative instrument known as the Select Aggregate Market Index (“SAMI”), which provides investors with exposure to a reference basket of senior loans. SAMIs are structured as floating rate instruments. SAMIs consist of a basket of credit default swaps whose underlying reference securities are senior loans. While investing in SAMIs will increase the universe of floating rate debt securities to which a client is exposed, such investments entail risks that are not typically associated with investments in other floating rate debt securities. The liquidity of the market for SAMIs will be subject to liquidity in the secured loan and credit derivatives markets. Investment in SAMIs involves many of the risks associated with investments in derivative instruments. A client may also be subject to the risk that the counterparty in a derivative transaction will default on its obligations. Derivative transactions generally involve the risk of loss due to unanticipated adverse changes in securities prices, interest rates, the inability to close out a position, imperfect correlation between a position and the desired hedge, tax constraints on closing out positions



and portfolio management constraints on securities subject to such transactions. The potential loss on derivative instruments may be substantially greater than the initial investment therein.

**Money Market Instruments.** Money market instruments include short-term U.S. government securities, U.S. dollar-denominated, high quality commercial paper (unsecured promissory notes issued by corporations to finance their short-term credit needs), certificates of deposit, bankers' acceptances and repurchase agreements relating to any of the foregoing. U.S. government securities include Treasury notes, bonds and bills, which are direct obligations of the U.S. government backed by the full faith and credit of the United States and securities issued by agencies and instrumentalities of the U.S. government, which may be guaranteed by the U.S. Treasury, may be supported by the issuer's right to borrow from the U.S. Treasury or may be backed only by the credit of the federal agency or instrumentality itself.

**U.S. Government Securities.** U.S. government securities in which Princeton invests on behalf of clients include debt obligations of varying maturities issued by the U.S. Treasury or issued or guaranteed by an agency or instrumentality of the U.S. government, including the Federal Housing Administration, Federal Financing Bank, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, Government National Mortgage Association (GNMA), General Services Administration, Central Bank for Cooperatives, Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Maritime Administration, Tennessee Valley Authority, District of Columbia Armory Board, Student Loan Marketing Association, Resolution Princeton Corporation and various institutions that previously were or currently are part of the Farm Credit System (which has been undergoing reorganization since 1987). Some U.S. government securities, such as U.S. Treasury bills, Treasury notes and Treasury bonds, which differ only in their interest rates, maturities and times of issuance, are supported by the full faith and credit of the United States government. Others are supported by (i) the right of the issuer to borrow from the U.S. Treasury, such as securities of the Federal Home Loan Banks; (ii) the discretionary authority of the U.S. government to purchase the agency's obligations, such as securities of the FNMA; or (iii) only the credit of the issuer. No assurance can be given that the U.S. government will provide financial support in the future to U.S. government agencies, authorities or instrumentalities that are not supported by the full faith and credit of the United States. Securities guaranteed as to principal and interest by the U.S. government, its agencies, authorities or instrumentalities include (i) securities for which the payment of principal and interest is backed by an irrevocable letter of credit issued by the U.S. government or any of its agencies, authorities or instrumentalities; and (ii) participations in loans made to non-U.S. governments or other entities that are so guaranteed. The secondary market for certain of these participations is limited and therefore may be regarded as illiquid.

**Derivative Transactions.** In select accounts, Princeton may use various derivative transactions to earn income, facilitate portfolio management and mitigate risks for clients. Such derivative transactions are generally accepted under modern portfolio management and are regularly used by many mutual funds and other institutional investors. Although Princeton seeks to use the practices to further a client's investment objectives, no assurance can be given that these

practices will achieve this result. Princeton may purchase and sell derivative instruments such as exchange-listed and over-the-counter put and call options on securities, financial futures, equity, fixed-income and interest rate indices, and other financial instruments, purchase and sell financial futures contracts and options thereon, enter into various interest rate transactions such as swaps, caps, floors or collars and enter into various currency transactions such as currency forward contracts, currency futures contracts, currency swaps or options on currency or currency futures or credit transactions and credit default swaps. Princeton also may purchase derivative instruments that combine features of these instruments.

The use of derivative instruments involves risks different from or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Certain of these risks are credit risk, leverage risk, market risk and management risk. Clients investing in derivatives are also subject to liquidity risk, lack of availability risk, valuation risk, correlation risk, tax risk, and counterparty risk. Liquidity risk is the risk that the Fund/client may not be able to purchase or liquidate a particular derivative at an advantageous time or place. Lack of availability risk is the risk that suitable derivative transactions may not be available in all circumstances for risk management or other purposes. Valuation risk is the risk that a particular derivative may be valued incorrectly. Correlation risk is the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. Tax risk is the risk that the use of derivatives may cause the fund to realize higher amounts of short-term capital gain. Counterparty risk lies with each party with whom the Fund/client contracts for the purpose of making derivative investments (the “Counterparty”). In the event of the Counterparty’s default, the Fund/client would only rank as an unsecured creditor and risks the loss of all or a portion of the amounts it is contractually entitled to receive. These risks could cause the Fund/client to lose more than the principal amount invested in a given derivative.

**Certain specific considerations for CDO-type vehicles:**

The selection of investments for such entities is generally based on strict criteria set forth in the offering documents of such entities. Their offering documents generally specify such considerations as sector concentration, ratings concentration (i.e. no more than X% of securities with certain rating characteristics), and set forth a number of “tests” and ratios as to the asset base that Princeton must try to maintain. Within the constraints specified in CDO-type vehicles, Princeton performs fundamental and technical analyses to select securities that it believes will meet each of the required tests and ratios and will allow the SPV’s asset balance to remain in compliance with required tests and ratios. CDO-type vehicles are generally highly structured and very complex. Their underlying assets are sometimes “synthetic” in whole or in part and based on the “reference” return of other obligations, assets or classes of assets. As discussed in **Item 5** above, there is generally a significant difference in the risk and potential reward considerations between the various tranches and sub-tranches in SPVs advised by Princeton. A key risk factor in these types of investments is often related to the estimates on the average lives of underlying investments and the percentage of such assets that will pay in full and/or when certain underlying assets might default. Projections based on publically available data are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying Princeton’s

projections will not materialize or will vary significantly from actual results. Some important factors that could cause actual results to differ materially include changes in interest rates, market, financial or legal uncertainties, mismatches between the timing of accrual and differences in the actual prepayment rates with respect to underlying collateral. Each investor in a CDO-type SPV advised by Princeton must review the offering memoranda of that SPV for a more detailed discussion of risks of such entity.

For static portfolios (i.e. those the manager never had or no longer have any discretion over), Princeton continues to act in its fiduciary capacity in a way that is consistent with its obligations under the relevant collateral management agreements, which typically consists of monthly performance surveillance of underlying collaterals, quarterly reconciliation with trustees/administrators, and resolving issues that may arise either from the deals themselves or from the underlying securities (e.g. corporation actions, etc.)

**Certain specific considerations for Princeton-advised Funds:**

Princeton has control over the design of the Funds it advises and manages. Each Fund employs specific investment strategies and has its own material risk factors and investment characteristics. Each investor in a Fund advised and/or managed by Princeton must consult the Private Placement Memorandum and related offering documents of the applicable Fund for a discussion of applicable risk factors and disclosure items. Within the framework and limitations specified in each Fund's governing and offering documents, Princeton performs fundamental and technical analyses to select securities that it believes will meet the mandates of the specific Fund. Investors in any Princeton managed Fund have significant general liquidity risk related to their investments because interests are not freely transferable and significant restrictions and/or limitations on redemptions exist.

Active Fund management strategies and some of the associated risks include the following:

Certain specific risks: Risks described above concerning the investment in loans and bank loans exist, as does the risk of investing in high yield securities, investment grade corporate obligations, mortgage backed securities and derivative instruments.

Other risks include:

**Loan Origination Risk** - the value of a Fund's investment in loans may be detrimentally affected to the extent a borrower defaults on its obligations, there is insufficient collateral and/or there are extensive legal and other costs incurred in collecting on a defaulted loan. Princeton may attempt to minimize this risk by maintaining low loan-to-liquidation values with each loan and the collateral underlying the loan. However, there can be no assurance that the value assigned by Princeton to collateral underlying a loan can be realized upon liquidation, nor can there be any assurance that collateral will retain its value. In addition, active lending/origination by a Fund under this strategy may subject it to additional regulation, as well as possible adverse tax consequences to its investors.

**Insolvency Considerations with Respect to Issuers of Debt Obligations** - Various laws enacted for the protection of creditors may apply to the debt obligations held by the Fund. The information in this paragraph is applicable with respect to U.S. issuers subject to United States bankruptcy laws. Insolvency considerations may differ with respect to other issuers. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an issuer of a debt obligation, such as a trustee in bankruptcy, were to find that the issuer did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the debt obligation and, after giving effect to such indebtedness, the issuer (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of such issuer, or to recover amounts previously paid by such issuer in satisfaction of such indebtedness. There can be no assurance as to whether any lending institution or other investor from which the issuer acquired the debt obligations engaged in any such conduct (or any other conduct that would subject the debt obligations and the issuer to insolvency laws) and, if it did, as to whether such creditor claims could be asserted in a U.S. court (or in the courts of any other country) against the issuer.

**Portfolio Concentration Risk** - It is possible that a significant amount of funds invested in this strategy may be invested in the instruments of only a few companies or that at any particular point in time one investment strategy could be more heavily weighted than the others. The concentration of a portfolio in any one obligor would subject a Fund following this strategy to a greater degree of risk with respect to defaults by such obligor, and the concentration of the portfolio in any one industry would subject the applicable Fund to a greater degree of risk with respect to economic downturns relating to such industry. The concentration of a Fund's portfolio in any one investment strategy would subject the Fund to a greater degree of risk than if the Fund's portfolio was diversified with respect to several investment strategies.

**Leverage** - Leverage results in a Fund controlling substantially more assets than the Fund has equity. Leverage increases a Fund's returns if the Fund earns a greater return on investments purchased with borrowed funds than the Fund's cost of borrowing such funds. However, the use of leverage exposes such a Fund to additional levels of risk including (i) greater losses from investments than would otherwise have been the case had the Fund not borrowed to make the investments, (ii) margin calls or changes in margin requirements may force premature liquidations of investment positions and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Fund's cost of leverage related to such investments. In the event of a sudden, precipitous drop in value of the Fund's assets, the Fund might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying the losses incurred by the Fund.

**Event Driven Strategy Risk**. There are significant business risks associated with event driven investing. Because of the inherently speculative nature of this activity, the results may

fluctuate from period to period, and, as part of the Fund's investment strategy, are not expected to correlate with the direction of the equity markets. Accordingly, the results of a particular period will not necessarily be indicative of results which may be expected in future periods. The significant business risks associated with event driven strategies include, but are not limited to, the items discussed below.

**Insolvency Considerations with Respect to Issuers of Debt Obligations** - Various laws enacted for the protection of creditors may apply to the debt obligations held by the Fund. The information in this paragraph is applicable with respect to U.S. issuers subject to United States bankruptcy laws. Insolvency considerations may differ with respect to other issuers. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an issuer of a debt obligation, such as a trustee in bankruptcy, were to find that the issuer did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the debt obligation and, after giving effect to such indebtedness, the issuer (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of such issuer, or to recover amounts previously paid by such issuer in satisfaction of such indebtedness. There can be no assurance as to whether any lending institution or other investor from which the issuer acquired the debt obligations engaged in any such conduct (or any other conduct that would subject the debt obligations and the issuer to insolvency laws) and, if it did, as to whether such creditor claims could be asserted in a U.S. court (or in the courts of any other country) against the issuer.

**Portfolio Concentration Risk** - It is possible that a significant amount of funds invested in this strategy may be invested in the instruments of only a few companies or that at any particular point in time one investment strategy could be more heavily weighted than the others. The concentration of a portfolio in any one obligor would subject a Fund following this strategy to a greater degree of risk with respect to defaults by such obligor, and the concentration of the portfolio in any one industry would subject the applicable Fund to a greater degree of risk with respect to economic downturns relating to such industry. The concentration of a Fund's portfolio in any one investment strategy would subject the Fund to a greater degree of risk than if the Fund's portfolio was diversified with respect to several investment strategies.

**Hedging and Arbitrage.** The use by the Fund of "hedged" or arbitrage strategies does not necessarily mean these strategies are relatively low risk. Substantial losses may be recognized on hedge or arbitrage positions, and illiquidity and default on one side of a position can effectively result in the position being transformed into an outright speculation. Every hedge or arbitrage strategy likely involves exposure to some second order risk, such as the implied volatility in convertible bonds or warrants, the yield spread between similar term bonds, or the price spread between different classes of stock for the same issuer.

**Arbitrage Risks.** The Fund will engage in capital structure arbitrage and other arbitrage strategies. Arbitrage strategies entail various risks including the risk that external events, regulatory approvals and other factors will impact the consummation of announced corporate events and/or the prices of certain positions. In addition, hedging is an important feature of capital structure arbitrage. There is no guarantee that the Manager will be able to hedge the Fund's portfolio in the manner necessary to successfully employ the Fund's strategy.

**Short Selling.** The Fund may sell securities short, which exposes the seller to theoretically unlimited risk due to the lack of an upper limit on the price to which the security may rise. Short selling also involves the sale of borrowed stock, and thus if the stock loan is called the short seller may be forced to repurchase the stock at a theoretically unlimited loss. In addition, some traders may attempt to profit by forcing short sellers to incur a loss, or may make large purchases of a stock that has been sold short with the intent to drive up the stock price and cause the short sellers to incur losses. Such traders expect the short sellers will limit their losses by repurchasing the stock and thus force the stock price even higher.

**Illiquidity of Investments.** The investments made by the Fund may be very illiquid, and consequently the Fund may not be able to sell such investments at prices that reflect the Manager's assessment of their value or the amount paid for such investments by the Fund. Illiquidity may result from the absence of an established market for the investments as well as legal, contractual or other restrictions on their resale by the Fund and other factors. Furthermore, the nature of the Fund's investments, especially those in financially distressed companies, may require a long holding period prior to being able to determine whether the investment will be profitable or not. The Fund is authorized to make distributions in kind of securities in lieu of or in addition to cash. In the event the Fund makes distributions of securities in kind, such securities could be illiquid or subject to legal, contractual and other restrictions on transfer.

**Non-U.S. Securities.** Investments in non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, such as risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar (the currency in which the books of the Fund are maintained) and the various foreign currencies in which the Fund's portfolio securities will be denominated and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including the absence of uniform accounting, auditing and financial reporting standards and practices and disclosure requirements, and less government supervision and regulation; (iii) political, social or economic instability; and (iv) the extension of credit, especially in the case of sovereign debt.

## **ITEM 9. DISCIPLINARY INFORMATION**

The CEO and founder of PAG, Munish Sood, was named in a criminal complaint alleging his unlawful involvement in an ongoing investigation concerning the basketball programs of various



universities and colleges, and an alleged scheme to steer talented student athletes, upon their graduation, and after being drafted by the NBA to Mr Sood's firm for investment advisory services and to other, unrelated entities for other services. Mr. Sood is vigorously defending these allegations. Nevertheless, in the interests of avoiding an adverse impact on the advisor firm, Mr. Sood has resigned his position as an officer and is not involved in the day to day management of Princeton. Additionally, Mr. Sood is exploring his options to sell or transfer his ownership in the company.

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

Employees Princeton may serve as directors or officers for portfolio companies in which the BDC Fund Client invests, or provide other services to portfolio companies. To mitigate potential conflicts, benefits received by Princeton Management or its employees in connection with such services will be reviewed by the Independent Directors of the BDC Client and may be offset against advisory fees payable by the BDC Fund Client. Currently no Princeton employee is paid.

Princeton has an affiliated FINRA-member broker-dealer, Cross Point Capital, LLC ("Cross Point"). Munish Sood, the owner of Princeton, is also the majority owner of Cross Point. Cross Point does not conduct portfolio trades for the accounts advised by Princeton. Cross Point may refer clients to Princeton from time to time and has the ability to act as a placement agent for Funds and structured products managed or advised by Princeton. From time to time, Cross Point may receive transaction fees with respect to the placement of interests, with compensation determined on a deal-by-deal basis.

Princeton Advisory Wealth Management, LLC ("PAWM") is an investment advisor which offers investment advisory services to high net worth individuals, pension and profit-sharing plans (including the participants of such plans), individual retirement accounts, trusts and other corporate entities ("Clients"). The primary owner and Managing Member of PAWM are Princeton Advisory Group, Inc., a registered investment advisor ("Princeton"), and Munish Sood (current sole owner of Princeton Advisory Group, Inc.).

As discussed in Item 4, Princeton provides investment advisory services (and generally also serves in a management role, such as the position of "Manager," "Managing Member," "General Partner" and/or a "Director") to a number of pooled investment vehicles in which clients may invest that rely on exemptions from registration as "investment companies by virtue" of Section 3(c)(1) and/or 3(c)(7) of the 1940 Act.

## **ITEM 11. CODE OF ETHICS AND PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS; PERSONAL TRADING**

We have adopted a Code of Ethics ("COE") as required by SEC rules. A copy of the Princeton's COE is available to any client or prospective client upon request.

Our COE establishes rules of conduct for all of our principals and employees, and is based upon the principle that we owe a fiduciary duty to our clients. Our COE includes personal trading reporting and review policies and procedures and insider trading policies and procedures. Our COE requires, among other things, that all individuals required to adhere to the COE and:

- Avoid any actual or potential conflict of interest;
- Conduct all personal securities transactions in a manner consistent with Princeton's COE; and
- Comply with applicable provisions of the federal securities laws.

Princeton does not engage in proprietary trading. Princeton's COE requires individuals required to adhere to the COE to: 1) pre-clear certain personal securities transactions, 2) report personal securities transactions on a quarterly basis, and 3) provide Princeton with a detailed summary of certain holdings and securities accounts (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

As stated in **Item 6**, when presented with an investment opportunity, Princeton will assess the suitability of the investment for each Fund or account it advises. Its assessment takes into account, among other things, the Funds' or account's investment objectives and strategies, risk profile, tax status, diversification requirements, liquidity needs and available assets for investment. Princeton also assesses current market conditions and any other information relevant to the fair allocation of securities among the multiple potential investors.

Please note: If a Fund advised by Princeton acts as a "feeder fund" to a Princeton advised "master fund," the "feeder fund" would be buying securities from the "master fund" (i.e. buying an interest in the "master fund"). With proper disclosure and Fund structuring, we do not view such an arrangement as a conflict of interest. Other than such a circumstance, situations where Princeton recommends to an existing client that such client invest in a Princeton-managed Fund or vehicle is generally limited to purchases of interests in SPVs within a Fund's mandate and select investments by the separately managed accounts of significant and sophisticated investors. See **Item 4** for more information. The clients of Princeton are SPVs, Funds, and select private investors - not the underlying people and entities that invest in SPVs and Funds advised by Princeton. As a registered adviser, Princeton adheres to the principal trade rules of Section 206 of the Investment Advisers Act of 1940, as amended.

Princeton and/or related persons may from time to time invest in securities or investment products that Princeton and such related persons may also recommend to clients. Any such securities transactions are likely to be insignificant in relation to the market as a whole. As a general practice, such transactions, if any, are executed after, or simultaneously with, related client transactions and disclosure of any conflict of interest is made in advance. Princeton and its related persons are not permitted to "front-run", self-deal, utilize insider information, or



otherwise participate in or effect transactions that would potentially cause damage or harm to a client account.

## **ITEM 12. BROKERAGE PRACTICES**

### **General Information**

In selecting brokers and dealers to effect transactions in financial instruments, Princeton considers such factors as general ability to obtain best execution, price, the brokers and dealers' facilities, reliability, credit quality and financial responsibility. These transactions typically are done on a "net" basis, without brokerage commission. Princeton reviews its relationships with each of these entities on a periodic and systematic basis to ensure that we fulfill our fiduciary duty to seek best execution on client transactions.

In selecting brokers or dealers to execute transactions, Princeton's policies do not require us to solicit competitive bids and Princeton does not have an obligation to seek the lowest available commission cost. It is not Princeton's practice to negotiate "execution only" commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by the broker to Princeton which are included in the commission rate and the research, brokerage or other services provided may not benefit any individual client or be allocated among clients in any fashion.

Purchases and sales of securities for any given client may be aggregated with purchases and sales of securities of the same issuer for other Princeton clients occurring on the same day. When transactions are so aggregated, the actual prices applicable to the aggregated transactions and transaction costs will be averaged and will be allocated among the assets under management and the accounts of our other participating clients in proportion to the purchase and sale orders placed for each client on any given day.

As discussed in **Item 10**, Princeton has an affiliated FINRA member broker, Cross Point. Cross Point does not conduct trades for the accounts advised by Princeton. Cross Point does refer clients to Princeton from time to time and has the ability to act as a placement agent for Funds and structured products managed or advised by Princeton. From time to time, Cross Point receives transaction fees with respect to the placement of interests, with such compensation being determined on a deal by deal basis.

### **Research and Other Soft Dollar Benefits**

Princeton does receive research products (i.e. research reports) and related services from the brokers it uses at no direct cost and no formal "soft dollar" arrangements currently exist. Research products and related products benefit Princeton because we do not have to pay for such research products or services, but do not necessarily directly benefit clients' accounts. Princeton, like any investment adviser may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services.

Section 28(e) of the Securities Exchange Act of 1934, as amended, is a “safe harbor” that permits an investment manager to use commissions or “soft dollars” to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process. Princeton currently uses its best efforts to limit the use of “soft dollars” to obtain research and brokerage services to services which constitute “research and brokerage” within the meaning of Section 28(e).

Princeton does not believe that the value of the research products and related services is significant or an important factor in choosing the brokers it recommends or uses to service its clients, in particular as the products and services received largely consist of unsolicited newsletters and reports.

### **Directed Brokerage**

Clients may request that brokerage transactions be directed to a specific broker-dealer. Clients who choose to direct brokerage to a broker-dealer other than those chosen by us may incur higher commission rates than clients who allow us the discretion to choose broker-dealers. If we believe that the use of another broker-dealer would hinder our ability to meet our fiduciary obligations, we will decline to accept the account. Currently Princeton does not manage any directed brokerage accounts.

## **ITEM 13. REVIEW OF ACCOUNTS**

Princeton strives to ensure compliance with each client’s investment guidelines, consistent with its fiduciary responsibility to manage the account in the best interest of the client. Accordingly, Princeton maintains compliance systems that capture most investment parameters from each client’s guidelines and facilitate automated pre-trade and post-trade testing for compliance with those parameters. The firm monitors each client account to ensure that it is invested consistently with any written client investment guidelines and restrictions, as well as applicable law and regulation.

The frequency, depth and nature of account reviews are often determined by negotiation with individual clients pursuant to the terms of each client's written investment management agreement or by the mandate selected by the client and the particular needs of each client. Reviews of accounts also occur when investment strategies and objectives are changed by the client. Reviews are conducted by the Portfolio Management personnel that are responsible for the particular account.

The frequency and content of reports for clients vary according to the particular needs of each client and the agreement between the client and Princeton.

Each investor in a Princeton-advised Fund receives a monthly capital account statement showing the current value of the investment and investment returns for the month, and year-to-date of investment (as calculated by our fund accountant/administrator). Depending on whether an investor in a Princeton Fund has executed a consent for electronic communication, these reports are provided in either hard-copy and/or electronic form.

Reporting to parties who have a separately managed account advised by Princeton is substantially similar to reporting provided to Fund investors, although depending on the desires of the individual client, analysis may or may not be provided.

With regard to SPV clients, reporting of holdings and performance is provided to the Trustee of each SPV at least monthly in whatever format(s) the Trustee may request.

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

We have entered into arrangements with third parties in which we agree to pay a third party for soliciting and referring clients to us. The third party may receive a portion of our standard management fee for a period of time, which amount varies on a case-by-case basis. Our payment for the referral or solicitation does not impact the fee paid by the client. These solicitation arrangements are structured under the requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended.

From time to time, Princeton compensates unaffiliated third party consultants and entities, both offshore and domestic, for referring prospective advisory clients and investors to it or the entities it may advise. Such consultants are paid referral fees, which are negotiated on a consultant-by-consultant basis. Princeton's payment of a referral fee does not affect the fees paid by any new advisory client or investor. Each consultant agrees that such referral arrangement will conform to Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended, including that such referral arrangement is disclosed to prospective advisory clients and investors.

Princeton or its affiliates (in particular, Cross Point) may also receive finder's fees and similar fees for identifying potential investors, which would be in addition to investment management fees. Princeton's affiliated FINRA member broker Cross Point may refer clients to Princeton from time to time and does act as a placement agent for certain Funds and structured products managed or advised by Princeton. From time to time, Cross Point receives transaction fees with respect to the placement of such interests, with compensation is determined on a deal by deal basis.

The Stable Strategy (see **Item 8**) may pay Princeton and/or its designee a one-time 100 basis point placement fee which is distributed to brokers and/or intermediaries at Princeton's discretion.

#### **ITEM 15. CUSTODY**

Princeton does not have physical custody of client's funds or assets. Separately managed accounts are custodied with the custodian of the clients' choosing. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Princeton urges clients to carefully review such statements and compare such official custodial records to the account statements that we may provide to clients. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Under SEC rules, as a Manager, General Partner, or Director of each Fund advised by Princeton, Princeton is deemed to have custody of certain Fund client assets. In all cases, our prime broker(s) (who are qualified custodians) hold and maintains the assets held by the Fund and we do not have physical custody of any assets.

*Each of the Funds advised by us is subject to an annual audit, and Princeton or the applicable Fund administrator distributes each Fund's audited financial statements to that Fund's investors within 120 days after the Fund's fiscal year end. The auditor of each Fund is an independent public accountant registered with and subject to inspection by the Public Company Accounting Oversight Board.*

## **ITEM 16. INVESTMENT DISCRETION**

We are granted discretionary authority by way of the investment advisory or sub-advisory contract with our clients (which may, depending on the client, be called any number of names, including for SPVs, a "Collateral Management Agreement"). By executing a discretionary advisory agreement, clients give us the authority to exercise investment discretion over their accounts.

Any limitations to this discretion are in a written document executed by both the client and us or, in the case of a Fund or SPV may be alternatively located in the governing documents of the Fund or SPV as accepted by us in writing (i.e. limitations stated in a Fund's Operating Agreement). Certain key matters concerning investment discretion are discussed in the subscription agreements applicable to underlying Fund investors.

## **ITEM 17. VOTING CLIENT SECURITIES**

Because Princeton Advisory Group, Inc. primarily manages fixed income securities, proxy voting is generally not required or requested under a fixed income class. However, clients may obtain a copy of Princeton's complete proxy voting policies and procedures upon request. Clients may also obtain information from Princeton about how Princeton voted any proxies on behalf of their account(s). Our policy for voting proxies of a Fund's portfolio companies is, in general, to vote with the management of the company.

If Princeton receives a proxy proposal that raises an actual and a material conflict of interest, Princeton will vote the proposals according to the policies of an independent third party.

Alternatively, Princeton may disclose the conflict of interest to the applicable client and obtain instructions from the client on how to vote on the proposal.

A copy of our proxy-voting policies and procedures are available to clients upon request, by calling us at (609) 514-9200.

## **ITEM 18. FINANCIAL INFORMATION**

In certain circumstances, Registered Investment Advisers are required in this item to provide clients with certain financial information or disclosures about Princeton Advisory Group's financial condition. Princeton has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.