

**Princeton Advisory Group Inc.**  
**700 Alexander Park**  
**Suite 201**  
**Princeton, NJ 08540**  
**Tel: (609) 514-9200**  
**Fax: (609) 514-0330**  
**Website: [www.princetonadvisory.com](http://www.princetonadvisory.com)**

**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. Registration with SEC or any state authority does not imply any particular level of skill or training.**

**Additional information about Princeton Advisory Group Inc. is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)**

**March 31, 2011**

***Item 2. Material Changes***

Princeton Advisory Group Inc's brochure complies with the new formatting and content requirements in the new Form ADV, Part 2. This is the first filing of Form ADV, Part 2 under the "brochure rule" in this particular format.

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

### ITEM 3. TABLE OF CONTENTS

	<u>Page</u>
Item 4. Advisory Business .....	1
Item 5. Fees and Compensation .....	2
Item 6. Performance-Based Fees and Side-By-Side Management .....	3
Item 7. Types of Clients .....	4
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....	4
Item 9. Disciplinary Information .....	20
Item 10. Other Financial Industry Activities and Affiliations .....	20
Item 11. Code of Ethics and Participation or Interest in Client Transactions; Personal Trading	20
Item 12. Brokerage Practices .....	21
a. General Information .....	21
b. Research and Other Soft Dollar Benefits .....	22
c. Directed Brokerage .....	22
Item 13. Review of Accounts .....	22
Item 14. Client Referrals and Other Compensation .....	23
Item 15. Custody .....	24
Item 16. Investment Discretion .....	24
Item 17. Voting Client Securities .....	24
Item 18. Financial Information .....	25

#### **Item 4. *Advisory Business***

Our firm, Princeton Advisory Group Inc. (“Princeton” “Us” or “We”) was founded by Munish Sood (“Munish”) and two other principals in 2002. Munish is presently the sole owner of the firm.

We primarily provide investment advisory and investment management services to both funds and special purpose vehicles. We also offer and provide investment advice directly (via separately managed account arrangements) to larger investors (including entities, foundations and high net worth individuals) upon request.

A significant portion of our business consists of serving as the “Collateral Manager” for a number of special purpose vehicles (“SPVs”) that facilitate structured finance transactions. The position of Collateral Manager is essentially that of serving as investment adviser for the SPV and balancing portfolios depending on the specific investment mandates of the SPV. These SPVs are often largely invested in asset-backed securities whose value and payments are derived from a portfolio of fixed income securities. Collateralized debt obligations (“CDOs”) issue their own securities that are split into different risk classes, or tranches, whereby returns on “senior” tranches are paid before returns on junior tranches.

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.

We provide 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” under the Investment Company Act of 1940, as amended (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 domestically formed Fund entities and offshore (British Virgin Islands) Fund entities. Some Funds employ what is known as a “master-feeder” structure where one Fund invests all or a portion of its assets in another Fund. 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.

No CDO-type vehicle advised by Princeton is tailored to a specific individual investor. No Fund advised by Princeton is tailored to a specific individual investor; however, Princeton is willing to design Funds structured around the general investment desires of large initial “key” investors. Parties intending to make a substantial investment (generally at least \$5 million) who wish to follow a specific strategy (similar to that of an existing Princeton Fund or otherwise) without supporting the structural costs inherent on establishing and maintaining a Fund vehicle

are welcome to contact Princeton to explore the opening of an individual non-pooled-vehicle separately managed account.

As of December 31, 2010 Princeton managed assets in the amount of approximately 2,627,600,000, all 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.

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.

As noted in *Item 4*, CDO-type securities pay certain tranches of “senior” investors certain amounts before more junior tranches or sub-tranches. The exact position of each tranche or sub-tranche in any circumstance is “hardwired” into a payment waterfall, with the return for each investor based on their place in the waterfall (a more junior tranche with a lower chance of full payment generally earns a higher rate of return, if applicable funds are available). For example, a party investing in Class A-1a notes of a SPV might have an very high chance of receiving full return of principal, an investor in Class A1-b notes would have a slightly reduced chance, and an investor in, for example, Class D-2b notes may have a notably lower chance of receiving a full return of their principal but might earn a significantly higher rate of interest than a Class A1-a investor. Certain fees and expenses due to the parties advising or providing services to a SPV entity may fall in various places in a payment waterfall. Payments or reimbursements may fall higher on the waterfall until a cap (annual or otherwise) is reached and then any remainder may fall lower on the payment waterfall. Often a portion of the payment owed to Princeton by SPV clients is at a high level of the applicable waterfall and a second portion is at a more junior level.

Fees from a CDO-type SPV are dependent in part on how large the entity is, the nature of the investment mandate, the intensity of the analysis required, Princeton’s place on applicable payment waterfalls, and past arrangements with the parties involved in similar entities. Given the highly variable nature of each CDO-type SPV and the fact that each entity is typically established with a minimum of several hundred million dollars of assets, the annualized “high” level waterfall payment to Princeton in such an entity is generally between 0.05% and 0.15% of the underlying assets of the SPV. Payments are typically made on a quarterly basis, but may be paid at other intervals, including monthly. Payments to Princeton are made by or on behalf of an unaffiliated Trustee based strictly on the payment mechanisms and standards built into the relevant governing documents of the SPV, as specified by the payment waterfall.

Princeton manages and advises various 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 2% 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 \$25,000,000 or more in a given Fund and to agree to certain lock-ups during which withdrawals are not permitted). Fees paid to Princeton by Fund clients are always paid in arrears, not in advance. Typically, management fees are paid quarterly (but, depending on what the organizational documents of a specific fund state, may be paid monthly). Performance based fees or allocations are typically paid or (as the case may be) allocated on an annual basis.

Fees for separately managed accounts are negotiable and follow the same general standards noted above for the Funds advised by Princeton and range from 50 basis points to 2% of assets under management plus 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. We currently manage a separately managed account in the “Distressed” strategy described under **Item 8** below and bill the client on a quarterly basis. Fees for Fund investors are deducted from accounts of the Fund. 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. 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 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 advice to SPVs, Funds and a separately managed account. We will provide investment advice directly (via a separately managed account) to larger individual investors (including entities, foundations and high net worth individuals) upon request.

The minimum subscription in our Funds is typically \$100,000 (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). The organizational documents and Private Placement Memoranda of each of the Funds advised by Princeton specify mandates and/or guidelines that Princeton must follow in investing the assets of the individual Fund.

#### ***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 analysts have the experience of managing assets over several economic cycles and have developed strong relationships with transaction originators and active financial sponsors. On behalf of our clients, we participate in secured loans created by acquisitions, leveraged buyouts and recapitalizations, focusing on companies in the upper tier of the leveraged loan market and their respective industries. On behalf of our clients, we participate selectively in dividend recapitalizations. We target generating higher returns with less volatility, higher security, and above average recovery rates. We are biased toward “hard” asset coverage and have experience in multiple valuation analysis.

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. Given our past experience in the senior secured bank loan market, we also seek credible second ways for repayment.

For actively managed portfolios Princeton maintains a disciplined approach to creating portfolio diversification, utilizing both internal proprietary systems and premier 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 loan recoveries.

We believe in a team oriented approach to our business. It is important to us to find team players that have the right “chemistry,” skill set and desire to excel. We look for team members that have experience in the senior debt markets and received credit training at major banks or financial institutions. We believe that teamwork with good interactive chemistry, strong credit skills, established structured framework and individual experiences make for a highly effective process.

In addition to active credit monitoring and portfolio management, we maintain a disciplined approach to creating portfolio diversification, utilizing both internal proprietary systems and premier external systems. 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 loan recoveries.



Our default approach is highly credit research driven and has been successful over multiple business cycles. We are able to take positions in credits and avoid/short riskier credits due to our ability to understand the fundamentals of a business and the long term outlook for the company. Our expertise in understanding the complete deal structure allows us to manage through credit issues and not be a forced seller. With the depth of our research team, we are able to take a hands on approach with company management when issues arise, and are positioned to work with underwriters and other debt holder in a distressed situations. Overall, our experience, our in depth credit research and our ability to take an active approach contributes to our selective process.

**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 redetermined 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.

Many 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.

*Assignments.* When a client of Princeton is a purchaser of an assignment, it typically succeeds to all the rights and obligations under the credit agreement of the assigning lender and becomes a lender under the credit agreement with the same rights and obligations as the assigning lender. Assignments are, however, arranged through private negotiations between potential assignees and potential assignors, and the rights and obligations acquired by the purchaser of an assignment may be more limited than those held by the assigning lender.

*Participations.* Princeton may also invest, on behalf of its clients, in participations in senior loans. The rights of a client when it acquires a participation are likely to be more limited than the rights of an original lender or an investor who acquired an assignment. Participation by a client in a lender's portion of a senior loan typically means that the client has only a contractual relationship with the lender, not with the borrower. This means that the client has the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the participation and only upon receipt by the lender of payments from the borrower. With a participation, a client will have no rights to enforce compliance by the borrower with the terms of the credit agreement or any rights with respect to any funds acquired by other lenders through setoff against the borrower. In addition, the client may not directly benefit from the collateral supporting the senior loan because it may be treated as a general creditor of the lender instead of a senior secured creditor of the borrower. As a result, the client may be subject to delays, expenses and risks that are greater than those that exist when the client is the original lender or holds an assignment. This means the client must assume the credit risk of both the borrower and the lender selling the participation.

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 are second in right of payment to one or more senior loans of the related borrower. 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 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.*** 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.

***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*** Many accounts advised by Princeton include derivative instruments and derivative transactions. 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/administers, 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:

**A.** “Government Strategy”: The current Government Strategy involves investing in securities issued or guaranteed by the U.S. Treasury and certain U.S. governmental agencies or instrumentalities, or government-sponsored entities, including the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Home Loan Banks (FHLB), and derivatives that are based on those securities (financial contracts whose value is based on, or derived from, an underlying asset, rate or index) such as swap agreements, structured notes, options and futures contracts, to hedge risk.

Under this strategy, a Fund may invest in other financial instruments or use other hedging investment techniques (such as reverse repurchase agreements). In a reverse repurchase agreement, the Fund would sell a security and enter into an agreement to repurchase the security at a specified future date and price. To earn additional income, a Fund using this strategy may lend portfolio securities to approved financial institutions. A Fund under this strategy may buy and sell portfolio securities actively.

Certain specific risks: If portfolio securities are bought and sold actively, a Fund’s portfolio turnover rate and transaction costs will rise, which may lower Fund performance and increase the likelihood of capital gain distributions.

**B.** “Stable Strategy”: The current Stable Strategy involves attempting to generate attractive risk-adjusted returns (with a target of 400 basis points over the U.S. dollar 1-month LIBOR rate) by investing in a combination of short-duration, enhanced cash and global fixed income products. This strategy involves investing in four key sectors: Global Fixed Income, Government Debt Securities; Short duration, high credit quality fixed income; Enhanced Cash. and Senior Secured Corporate Debt. Specific activity includes investments in U.S. Treasuries, high quality mortgage backed bonds, investment grade bonds, senior secured bonds and government backed securities. The objective is to enhance the returns generally available to cash or money market investments while maximizing capital preservation and liquidity. A goal is to produce returns that exhibit low correlations to the broad markets through disciplined credit selection and active portfolio management.

Certain specific risks: Risks described above concerning the investment in loans and bank loans exist in this strategy, 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.

**C. "Credit Strategy":** The current Credit Strategy involves investing in a Princeton advised fund following the Stable Strategy, but also, from time to time, making direct investments which may specifically include Rule 144A securities, bank debt and asset backed securities. General risk factors are similar to that of the Stable Strategy, but with additional risk related to the operation of and investment in a "master" fund that follows the Stable Strategy.

**D. "Distressed Strategy":** A Fund investing in the Distressed Strategy attempts to capitalize on the dislocation in the asset-backed securities (ABS) market which began with the collapse of the sub prime mortgage market. The credit crisis and problems in the U.S. mortgage market has created opportunities in the residential and commercial real estate markets. The unwinding of conduits known as structured investment vehicles, liquidation of collateralized debt obligations, deleveraging of bank balance sheets and rating downgrades provide opportunities to purchase assets that offer the potential to generate attractive long term returns.

In this strategy, a top down process is employed for sector selection. Macroeconomic factors and trends are assessed for the potential impact on underlying collateral. The Princeton team focuses on the current and anticipated interest rate environment, regional trends, and the salient features of each sector. These features include historical growth and growth prospects, depth and liquidity of the market, risk/return profile, and transparency. The team focuses on sectors with hard, tangible assets where risks are systematic and avoid sectors where risks are idiosyncratic. Additionally, each sector is evaluated in light of the regulatory and legal environment.

Risks of the Distressed Strategy include most of the same risks as the Stable Strategy. Some other risks to consider include:

-Competitive Market for Investments in Structured Vehicles - There is no certainty that a Fund following this strategy will be able to invest in MBS, ABS, CMBS and/or CDOs (together "Structured Vehicles") that it targets, or that a Fund following this strategy will be able to invest the amounts which it desires to commit to such Structured Vehicles. Such uncertainty may have an adverse effect on the Fund's ability to effectively employ its investment strategy and performance may be adversely affected as a result.

-Equities Based and "Proxy" Investment Risks - A Fund following this strategy may invest in other instruments, including equity investments, if in the opinion of Princeton such investments are a proxy for or a hedge against the core investments in distressed ABS and CMBS securities. Investments in these instruments bear their own, independent liquidity and volatility risks. The use by a Fund of "hedged" strategies does not necessarily mean these strategies are relatively low risk. Substantial losses may be recognized on hedge positions, which may be significantly leveraged. Market volatility on investments is a proxy for or a hedge against the core investments in distressed ABS

and CMBS securities may also be magnified. Further, investing in securities that are believed to be a proxy for or a hedge against the core investments in distressed ABS and CMBS securities may not turn out to be actual or effective proxies of or hedges against applicable distressed ABS and CMBS securities.

**-Credit Default Swaps and Other Credit Derivatives -** A Fund following this strategy may make investments in CDS or other credit derivatives. These transactions generally provide for the transfer from one counterparty to another of certain credit risks inherent in the ownership of a financial asset such as a high yield debt security or an asset backed or mortgage-backed security. Such risks include, among other things, the risk of default of such asset, the risk that the credit of the underlying collateral will decline or that credit spreads for like assets and/or investments will change (thus affecting the market value of the financial asset). The transfer of credit risk pursuant to a credit derivative may be complete or partial, and may be for the life of the related asset or for a short period. Credit derivatives may be used as a risk management tool for a pool of financial assets, providing the Fund with the opportunity to gain exposure to one or more reference obligations without actually owning such assets in order, for example, to reduce a concentration risk or to diversify the Fund's portfolio. Conversely, credit derivatives may be used to reduce exposure to an owned asset without selling it in order, for example, to avoid difficult transfer restrictions, manage illiquid assets or hedge declining credit quality of the financial asset.

**-Subprime Mortgage Loans -** A Fund following this strategy may invest in MBS backed by collateral pools of subprime residential mortgage loans or directly in such loans. "Subprime" mortgage loans refers to mortgage loans that have been originated using underwriting standards that are less restrictive than the underwriting requirements used as standards for other first and junior lien mortgage loan purchase programs, such as the programs of Fannie Mae and Freddie Mac. These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories (including outstanding judgments or prior bankruptcies), mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified. Due to economic conditions, including increased interest rates and lower home prices, as well as aggressive lending practices, subprime mortgage loans have in recent periods experienced increased rates of delinquency, foreclosure, bankruptcy and loss, and they are likely to continue to experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Thus, because of the higher delinquency rates and losses associated with subprime mortgage loans, the performance of MBS backed by subprime mortgage loans in which the Fund may invest could be correspondingly adversely affected, which could adversely impact the Fund's results of operations, financial condition and business.

## **Item 9. *Disciplinary Information***

We have no legal or disciplinary events to report.

## **Item 10. *Other Financial Industry Activities and Affiliations***

Princeton has an affiliated FINRA-member broker, Cross Point Capital, LLC (“Cross Point”). Munish Sood, the owner of Princeton, is also the owner of 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 compensation determined on a deal-by-deal basis.

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***

### **a. 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.

**b. 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.

**c. 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.

**Item 13. *Review of Accounts***

All client accounts are reviewed regularly, and in particular, at times of significant and relevant market changes.

The composition of the SPVs managed by Princeton are reviewed at least monthly to confirm compliance with applicable tests and ratios (see **Item 8** for greater detail).

At the beginning of each calendar quarter, Princeton's investment team meets to discuss the performance of the Funds its advises, their performance in the previous quarter as well as to discuss plans for such Funds in the coming quarter(s). These meetings are typically held in our offices.

The performance of the separately managed accounts and SPVs advised by Princeton are also considered at these meetings and similar criteria are considered for such accounts.

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). We also provide a monthly recap for non-quarter-month-ends that shows the Fund's performance for the month, quarter-to-date, year-to-date and since inception (as calculated by the Fund's accountant/administrator), along with a short summary of Fund activity for the month. At each quarter-end we provide a longer, more detailed quarterly letter to investors that provides Fund returns quarter-to-date, year-to-date and since inception (as calculated by our fund accountant/administrator) as well information concerning the Fund's significant activities and performance during the quarter. 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.

Funds operating under the Stable Strategy and Credit Strategy (see **Item 8**) 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***

Under SEC rules, as a Manager, General Partner, or Director of each Fund advised by Princeton, Princeton is deemed to have custody of 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.

Upon liquidation, each Fund will distribute its audited financial statements to its investors after the completion of such audit.

### **Item 16. *Investment Discretion***

We manage only discretionary accounts. We are granted discretionary authority by way of the investment 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***

Our policy for voting proxies of a Fund's portfolio companies is, in general, to vote with the management of the company.

We are happy to provide current or prospective investors in any Princeton advised Fund with a copy of our proxy voting policies and procedures as well as report showing how we have voted portfolio company proxies in the past.

We will vote the securities of a SPV or separately managed account client, on request, in accordance with the same policy.

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***

Not applicable. We are unaware of any financial conditions that would be reasonably likely to impair our ability to meet our contractual obligations to our clients.