

Sankaty Advisors, LLC

John Hancock Tower
200 Clarendon Street
Boston, MA 02116

www.sankaty.com

Part 2A of Form ADV: Firm Brochure
March 2014

This brochure provides information about the qualifications and business practices of Sankaty Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at (617) 516-2318. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about Sankaty Advisors, LLC also is available on the SEC’s website at www.adviserinfo.sec.gov. An investment adviser’s registration with the SEC does not imply a certain level of skill or training.

Item 2. Material Changes

Item 2 is not applicable.

Item 3. Table of Contents

<u>Item Number</u>	<u>Item</u>	<u>Page</u>
1	Cover Page	1
2	Material Changes	2
3	Table of Contents	3
4	Advisory Business	4
5	Fees and Compensation	5
6	Performance-Based Fees and Side-By-Side Management	6
7	Types of Clients	6
8	Methods of Analysis, Investment Strategies and Risk of Loss	6
9	Disciplinary Information	28
10	Other Financial Industry Activities and Affiliations	28
11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	38
12	Brokerage Practices	39
13	Review of Accounts	41
14	Client Referrals and Other Compensation	41
15	Custody	41
16	Investment Discretion	41
17	Voting Client Securities	42
18	Financial Information	42
19	Requirements for State-Registered Advisers	42

Item 4. Advisory Business

Sankaty Advisors, LLC (“Sankaty”), a Delaware limited liability company wholly owned by Bain Capital, LLC (“Bain Capital”), provides investment advisory services to pooled investment vehicles that are exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”) and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”), (referred to as “Sankaty Partnerships”). Sankaty also provides investment advisory services to partnership funds structured as collateralized loan obligations (“CLOs”). The Sankaty Partnerships and CLOs are collectively referred to as “Sankaty Funds.” In addition, Sankaty provides investment advisory services to clients in separately managed accounts (“Separate Account Clients”). The Sankaty Funds and Separate Account Clients are referred to collectively as “Sankaty Clients.” Additionally, Sankaty provides sub-advisory services to certain other Sankaty Funds (“Sub-Advisory Funds”).

Sankaty’s investment advisory activities include providing investment advice to Sankaty Clients that have four main strategies: long-only, primarily bank debt focused funds, long/short liquid credit funds, direct lending and credit opportunities funds that invest in higher yielding credit. As the investment adviser or sub-adviser of each Sankaty Client, Sankaty (along with, in the case of each Sankaty Partnership, the general partner (“General Partner”) of such Sankaty Partnership), identifies investment opportunities for, and participates in the acquisition, management, monitoring and disposition of investments of, each Sankaty Client.

Sankaty uses fundamental credit analysis to identify attractive investment opportunities and seeks superior risk adjusted returns, primarily in credit products and fixed-income investments. Sankaty provides investment advice regarding investments in performing and distressed bank loans, high yield bonds, investment grade bonds, mortgages, non-performing loans, mezzanine/private placements, structured products, credit based securities, swap transactions (including total rate of return swaps and credit default swaps), derivative instruments, equities, short sales, currency hedging transactions, securities lending arrangements, repurchase agreements, and investments as a limited partner in private equity partnerships. Sankaty Clients may use leverage directly or indirectly. Use of leverage will increase the volatility of levered investments.

Sankaty provides investment advisory services to each Sankaty Client pursuant to separate investment and advisory, investment management or portfolio management agreements (each, an “Advisory Agreement”) or separate sub-advisory agreements (each, a “Sub-Advisory Agreement”). Investment advice is provided by Sankaty directly to each Sankaty Partnerships, subject to the direction and control of the affiliated General Partner of the Sankaty Partnership. Any restrictions on investments in certain types of securities are established by the General Partner of the applicable Sankaty Partnership, and are set forth in the documentation received by each limited partner prior to investment in such Sankaty Partnership.

The terms of the advisory services to be provided to a Sankaty Fund (except for the Sub-Advisory Funds and Sankaty Partnerships), including any restrictions on investments in certain types of securities, are established by Sankaty as modified by negotiations with investors in the applicable Sankaty Fund, and are set forth in such Sankaty Fund’s Advisory Agreement and other documentation received by each investor prior to investment in such Sankaty Fund. The

terms of the advisory services to be provided to a Sub-Advisory Fund, including any restrictions on investments in certain types of securities, were established at the time that Sankaty began providing investment advisory services to the applicable Sub-Advisory Fund and are set forth in such Sub-Advisory Fund's Sub-Advisory Agreement. Once invested in a Sankaty Fund, investors cannot impose restrictions on the types of securities in which such Sankaty Fund may invest.

The terms of the advisory services to be provided to a Separate Account Client, including any restrictions on investments in certain types of securities, are the result of negotiations between Sankaty and such Separate Account Client, and are set forth in such Separate Account Client's Advisory Agreement. The Advisory Agreement of a Separate Account Client may be changed by such Separate Account Client only to the extent permitted by the applicable Advisory Agreement.

Sankaty has been in business since 1997. As of December 31, 2013, Sankaty manages approximately \$ 22,339,000,000 of client assets, all of which is managed on a discretionary¹ basis.

Item 5. Fees and Compensation

As compensation for investment advisory services rendered to the Sankaty Clients, Sankaty receives from each Sankaty Client (or Sub-Advisory Clients) an advisory fee (each, an "Advisory Fee"). Advisory Fees billed to and received from Sankaty Funds vary fund by fund and may be payable quarterly in advance, quarterly in arrears, semi-annually in arrears, or a combination thereof. Advisory Fees billed to Separate Account Clients are individually negotiated, and the timing of the payment of such Advisory Fees is generally quarterly in advance. Upon termination of an Advisory Agreement, appropriate treatment will be given to all management fees collected in advance.

Each Sankaty Fund bears its own expenses, including but not limited to taxes, investment expenses (e.g., brokerage commissions, custody fees and interest expenses), insurance premiums, legal expenses, research expenses (e.g., news and quotation subscriptions, market research and travel expenses in connection with making and monitoring investments), accounting, audit and tax preparation expenses and other expenses associated with the operation of such Sankaty Fund. Such expenses may be reduced through the use of "soft" or commission dollars (see Item 12 below). Each Sankaty Fund will also bear its organizational and offering expenses. Separate Account Clients bear similar expenses, depending on the terms of the Advisory Agreement negotiated with the applicable Separate Account Client.

When a broker is used in connection with an investment by a Sankaty Client, such Sankaty Client will incur brokerage and other transaction costs. For additional information regarding brokerage practices, please see Item 12 below.

¹ Sankaty does not have ultimate investment discretion with respect to the assets of any Sankaty Partnerships, as such is retained by the applicable general partner of each Sankaty Partnership.

Item 6. Performance-Based Fees and Side-By-Side Management

Some, but not all, Sankaty Clients pay an Incentive Fee. Please see Item 10 and Item 12 below for additional information relating to how conflicts of interests regarding Incentive Fees are generally addressed by Sankaty.

Item 7. Types of Clients

Sankaty currently provides investment advisory services to the Sankaty Funds. Investment advice is provided directly to the Sankaty Funds (subject to, in the case of the Sankaty Partnerships, the direction and control of the General Partner of each Sankaty Partnership) and not individually to investors in such Sankaty Fund. Sankaty also provides advisory services to various entities that are Separate Account Clients.

Interests in the Sankaty Funds are offered pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act. Investors in the Sankaty Funds include high net worth individuals, banks, thrift institutions, pension and profit sharing plans, sovereign wealth funds, trusts, estates, charitable organizations, university endowments, corporations, limited partnerships and limited liability companies or other business entities.

Although Sankaty does not impose minimum dollar values on creating a Sankaty Fund, legal eligibility requirements must be met. Minimum investment commitments may be established for limited partners in the Sankaty Funds. Sankaty and, in the case of each Sankaty Partnership, the General Partner of such Sankaty Partnership, in its sole discretion, may permit investments that are less than the minimum investment commitment of such Sankaty Fund. While Sankaty does not impose a minimum amount for establishing a separate account, separate accounts are generally established with a \$100,000,000 minimum, although Sankaty, in its sole discretion, may permit investments that are less than such minimum.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

Sankaty monitors investments based on an analytical approach that generally involves evaluating the following investment characteristics:

Idea Generation: Sankaty's professionals identify new investment opportunities through three key avenues. First, through industry analysis and relative value screens conducted by Sankaty's investment professionals. Second, through investment opportunities brought to the Sankaty Clients by Sankaty's network of relationships including restructuring advisers, commercial and investment banks and other affiliates of Bain Capital. Third, through Sankaty's mezzanine and private placement teams' proprietary sourcing efforts.

Company Evaluation

Market Definition. Traditionally, the first step in Sankaty's fundamental competitive analysis is defining, as accurately as possible, the market in which a company competes. Market definition generally requires an assessment of the customer needs driving the consumption of a company's products and services. If the market is defined too narrowly, substitute goods or services may be overlooked, and a company's ability to affect pricing may be overestimated. Likewise, if the market is defined too broadly, competitive advantage may be underestimated. Many of the tools used in the definition process are derived from methodologies developed at consulting firms.

Market Size and Prospects for Growth. Once a market is defined, the next step in Sankaty's analysis is to attempt to determine the dollar size of the market and to assess its growth prospects. Although market information may often be available through publicly available information, Sankaty's professionals are trained to question the available data because of the inherent biases of the reporting authorities (e.g., trade publication, industry group and "independent" consultants). Sankaty seeks to identify the primary drivers of growth (i.e. demographic trends, buying habits, technological shifts) to validate conclusions drawn by the public information. If validation is not possible, Sankaty often derives its own industry growth model through primary source research.

Margin Analysis and Cost Structure. After examining the market environment in which a company operates, Sankaty typically scrutinizes the company's historical performance and prospects. This analysis centers around the company's sustainable margins and its quality of earnings. Sankaty professionals attempt to assess the sustainability of a company's margins over time by tracking and projecting pricing trends in the industry (based on research regarding market definition, size and growth characteristics) and the company's cost structure relative to its competitors. Sankaty generally assesses a company's quality of earnings through detailed margin analyses as well as evaluation of a company's return on assets, paying particular attention to one-time charges and extraordinary events.

Competitive Landscape. In evaluating a company's prospects, Sankaty seeks to identify and assess the current and prospective competitors of that company. The scale economies, technological advantages, and cost efficiencies available to such competitors may then be compared and contrasted in order to benchmark a company's relative strengths and weaknesses. Although a company may participate in a large, growing and otherwise attractive market, its prospects may depend on its ability to maintain a competitive advantage. Sankaty professionals are trained to analyze a competitive landscape in order to determine whether a company can be expected to perform at levels consistent with the business plan proffered by the company's management or other sponsors. A significant portion of this analysis is often conducted through interviews of portfolio company executives, other industry contacts, as well as competitors and suppliers.

Corporate Structure and Access to Capital Markets. Sankaty reviews the corporate structure of each of its investments to understand how the company's assets are distributed, which subsidiaries have the support of those assets and how any guarantees, liens or pledges will affect an investment in the company. Sankaty also analyzes an issuer's capitalization, its financial flexibility, debt amortization requirements, and the covenants, terms and conditions of the issuer's outstanding debt and equity securities. Reviewing the various covenant levels and compliance issues is an important part of Sankaty's investment monitoring system. Sankaty's professionals have extensive experience analyzing the corporate structure and covenant

issues in each of the targeted asset classes.

Third Party Diligence. As part of the diligence process for certain investments, Sankaty may hire third party firms to conduct accounting, tax, legal and environmental diligence, as well as perform background checks on principals or management teams where appropriate. Given the illiquid nature of these investments, Sankaty believes it is critical to surface these issues prior to closing a transaction.

Regulatory, Tax and Legal Environment. As part of its review process, Sankaty generally performs a review of potential regulatory, tax and legal contingencies to assess any potential negative impact on the company's value or ability to continue as an ongoing concern.

Portfolio Management. Sankaty manages portfolio risk by monitoring issuer and industry diversification, interest rate risk, currency risk and other risks applicable to the Sankaty Clients.

On-going Investment Monitoring. Closely monitoring financial performance and market developments of portfolio investments is critical to successful investment management. Accordingly, Sankaty is actively involved in an on-going portfolio review process. To the extent a portfolio investment is not meeting plan, Sankaty takes corrective action when appropriate.

Risks

Investing in securities involves a substantial degree of risk. A Sankaty Client may lose all or a substantial portion of its investments, and Separate Account Clients and investors in Sankaty Funds must be prepared to bear the risk of loss of their investments.

In addition, material risks relating to the investment strategies and methods of analysis described above, and to the types of securities typically purchased by or for Sankaty Clients in connection with those strategies and methods, include the following:

Nature of Sankaty Client Investments

General. The investments made by or for Sankaty Clients will generally consist of debt obligations, securities and assets that have significant risks as a result of business, financial, market or legal uncertainties. There can be no assurance that Sankaty and the General Partner of a Sankaty Client, if applicable, will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on such Sankaty Client's investments. Prices of each Sankaty Client's investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of each Sankaty Client's activities and the value of the its investments.

Bank Loans. The investments of a Sankaty Client may include interests in loans originated by banks and other financial institutions. The loans invested in by a Sankaty Client may include term loans and revolving loans, may pay interest at a fixed or floating rate and may be senior or subordinated. Purchasers of bank loans are predominantly commercial banks, investment funds and investment banks. As secondary market trading volumes for bank loans increase, new bank loans are frequently adopting standardized documentation to facilitate loan trading which should improve market liquidity. There can be no assurance, however, that future levels of supply and

demand in bank loan trading will provide an adequate degree of liquidity, that the current period of illiquidity will not persist or worsen and that the market will not experience periods of significant illiquidity in the future. In addition, Sankaty Clients may make investments in stressed or distressed bank loans which are often less liquid than performing bank loans. Sankaty Clients may acquire interests in bank loans either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest, not with the borrower. In purchasing participations, a Sankaty Client generally will have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, and such Sankaty Client may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, such Sankaty Client will assume the credit risk of both the borrower and the institution selling the participation.

High Yield Debt. A Sankaty Client may invest in high yield debt, a substantial portion of which is rated below investment-grade by one or more nationally recognized statistical rating organizations or are unrated but, in Sankaty's opinion, of comparable credit quality to obligations rated below investment-grade, and have greater credit and liquidity risk than more highly rated debt obligations. High yield debt is generally unsecured and may be subordinate to other obligations of the obligor. The lower rating of high yield debt reflects a greater possibility that adverse changes in the financial condition of the obligor or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the obligor to make payment of principal and interest. Many issuers of high yield debt are highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. In addition, many issuers of high yield debt may be in poor financial condition, experiencing poor operating results, having substantial capital needs or negative net worth or be facing special competitive or product obsolescence problems, and may include companies involved in bankruptcy or other reorganizations or liquidation proceedings. Certain of these securities may not be publicly traded, and therefore it may be difficult to obtain information as to the true condition of the issuers. Overall declines in the below investment-grade bond and other markets may adversely affect such issuers by inhibiting their ability to refinance their debt at maturity. High yield debt is often less liquid than higher rated securities, and high yield debt has recently experienced periods of volatility. The market values of certain of this high yield debt may reflect individual corporate developments.

High yield debt is often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. High yield debt has historically experienced greater default rates than has been the case for investment-grade securities. Sankaty Clients may also invest in equity securities issued by entities with unrated or below investment-grade debt.

High yield debt may also be in the form of zero-coupon or deferred interest bonds, which are bonds which are issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until

maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. These investments typically experience greater volatility in market value due to changes in the interest rates than bonds that provide for regular payments of interest.

Priority of Repayment for Certain Investments

The characterization of a Sankaty Client's investments as senior debt or senior secured debt does not mean that such debt will necessarily be repaid in priority to all other obligations of the businesses in which a Sankaty Client invests. Furthermore, debt and other liabilities incurred by non-guarantor subsidiaries of the borrowers of senior secured loans made by a Sankaty Client may be structurally senior to the debt held by a Sankaty Client. In the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, the debt and other liabilities of such subsidiaries could be repaid in full before any distribution can be made to an obligor of the senior secured loans held by a Sankaty Client. Finally, portfolio companies will typically incur trade credit and other liabilities or indebtedness, which by their terms may provide that their holders are entitled to receive principal payments on or before the dates payments are due in respect of the senior secured loans held by a Sankaty Client.

Risks of Secured Loans

While a Sankaty Client may invest in secured loans that may be over-collateralized at the time of the investment, it may nonetheless be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. A Sankaty Client cannot guarantee the adequacy of the protection of a Sankaty Client's interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, a Sankaty Client cannot assure that claims may not be asserted that might interfere with enforcement of a Sankaty Client's rights. In addition, in the event of any default under a secured loan held directly by a Sankaty Client, a Sankaty Client will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the secured loan, which could have a material adverse effect on a Sankaty Client's cash flow from operations.

In the event of a foreclosure, a Sankaty Client may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to a Sankaty Client. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

Credit Default Swaps, Total Rate of Return Swaps and Other Credit Derivatives. A Sankaty Client may make investments in credit default swaps, total rate of return swaps and 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 bank loan or a high yield debt security. Such risks include, among other things, the risk of default and insolvency of the obligor of such asset; the risk that the credit of the obligor or the underlying collateral will

decline or that credit spreads for like assets 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 shorter period. Credit derivatives may be used as a risk management tool for a pool of financial assets, providing a Sankaty Client with the opportunity to gain exposure to one or more reference loans or other financial assets (each, a “reference asset”) without actually owning such assets in order, for example, to reduce a concentration risk or to diversify a portfolio. Conversely, credit derivatives may be used by a Sankaty Client to reduce exposure to an owned asset without selling it in order, for example, to maintain relationships with clients, to avoid difficult transfer restrictions, manage illiquid assets or hedge declining credit quality of the financial asset.

Credit default swaps, total rate of return swaps and other credit derivatives are subject to many of the same types of risks described below in “Item 8: Risks -- Interest Rate, Currency Exchange and Investment Risk Management.” For example, in each credit derivative transaction that a Sankaty Client is party to, it assumes the credit risk of the counterparty. In the event that a Sankaty Client enters into a credit derivative with a counterparty who subsequently becomes insolvent or becomes the subject of a bankruptcy case, the credit derivative may be terminated in accordance with its terms and such Sankaty Client’s ability to realize its rights under the credit derivative and its ability to distribute the proceeds could be adversely affected.

Credit default swaps, total rate of return swaps and other credit derivatives are a relatively recent development in the financial markets. Consequently, there are certain legal, tax and market uncertainties that present risks in entering into such credit default swaps, total rate of return swaps and other credit derivatives. There is currently little or no case law or litigation characterizing credit default swaps, total rate of return swaps or other credit derivatives, interpreting their provisions, or characterizing their tax treatment. In addition, additional regulations and laws may apply to credit default swaps, total rate of return swaps or other credit derivatives that have not heretofore been applied. There can be no assurance that future decisions construing similar provisions to those in any swap agreement or other related documents or additional regulations and laws governing credit default swaps, total rate of return swaps or other credit derivatives will not have a material adverse effect on the Sankaty Clients.

The use of leverage will significantly increase the sensitivity of the market value of the credit default swaps, total rate of return swaps or other credit derivatives to changes in the market value of the reference assets. The reference assets are subject to the risks related to the credit of the underlying obligors. These risks include the possibility of a default or bankruptcy of the obligors or a claim that the pledging of collateral to secure a loan constituted a fraudulent conveyance or preferential transfer that can be subordinated to the rights of other creditors of the obligors or nullified under applicable law. See below in “Item 8: Risks -- Lender Liability Considerations and Equitable Subordination” and “Item 8: Risks -- Fraudulent Conveyance Considerations” for a description of these risks.

In addition, the U.S. government recently enacted new regulation of the derivatives market. Such regulation could restrict the ability of Sankaty Clients to engage in derivatives transactions and/or increase the costs of such derivatives transactions, and Sankaty may be unable to execute the investment strategy for a Sankaty Client as a result. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action.

Short Sales. Sankaty is authorized to invest in, or short, public securities for certain Sankaty Clients. Such investments involve a high degree of risk. In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. As a result, Sankaty will cause a Sankaty Client to engage in short sales only where it believes the value of the security will decline between the date of the sale and the date such Sankaty Client is required to return the borrowed security. The making of short sales exposes a Sankaty Client to the risk of liability for the market value of the security that is sold, an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase. A Sankaty Client may also take short positions in securities through various derivative products. These derivative products will typically expose such Sankaty Client to similar economic risks as if it had shorted the security directly.

Residential Mortgage-Backed Securities. Residential Mortgage-Backed Securities (“RMBS”) represent an interest in a pool of residential mortgage loans. Investing in RMBS involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk) and certain additional risks and special considerations (including the risk of principal prepayment and the risk of investing in real estate). Typically, when market interest rates decline, more mortgages are refinanced and the securities are paid off earlier than expected. Prepayments may also occur on a scheduled basis or due to foreclosure. Typically, when market interest rates increase, the market values of mortgage-backed securities decline. At the same time, however, mortgage refinancings and prepayments generally slow, which lengthens the effective maturities of these securities. As a result, the negative effect of the rate increase on the market value of RMBS is usually more pronounced than it is for other types of fixed-income securities. Further, different types of RMBS are subject to varying degrees of prepayment risk.

The risks of investing in RMBS reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the ability of tenants to make payments, and the ability to attract and retain tenants. Some RMBS may be backed by non-conforming mortgage loans, which are mortgage loans that do not qualify for purchase by government-sponsored agencies, such as Fannie Mae and Freddie Mac because of credit characteristics. Accordingly, such mortgage loans are likely to experience higher rates of delinquency, foreclosure and loss than mortgage loans originated in accordance with Fannie Mae or Freddie Mac underwriting guidelines.

RMBS may contain certain credit enhancement features intended to enhance the likelihood that holders of such securities will receive regular payments of interest and principal. There can be no assurance that the credit enhancement, if any, will adequately cover any shortfalls in cash available to make payments on such securities as a result of such delinquencies or defaults.

RMBS may be subordinated to one or more other senior classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying mortgage loans. In addition, in the case of certain securities, no distributions of principal would generally be made with respect to any class until the aggregate principal

balances of the corresponding senior classes of securities have been reduced to zero. As a result, the subordinate classes are more sensitive to risk of loss and writedowns than senior classes of such securities.

RMBS may not be structured with significant or any overcollateralization, so their performance will be sensitive to delays or reductions in payments, particularly in the case of subordinated tranches of such securities. To the extent that RMBS provide for writedowns of principal, interest will cease to accrue on the portion of principal of a security that has been written down.

Convertible Securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by a Sankaty Client is called for redemption, such Sankaty Client will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third-party. Any of these actions could have an adverse effect on the ability of such Sankaty Client to achieve its investment objective.

Use of Options. Sankaty may cause a Sankaty Client to buy or sell (write) both call options and put options (either exchange-traded, over-the-counter or issued in private transactions), and when it writes options it may do so on a “covered” or an “uncovered” basis. Such options transactions may be part of a hedging tactic (i.e., offsetting the risk involved in another securities position) or a

form of leverage, in which the applicable Sankaty Client has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be large, depending on the circumstances. In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions the applicable Sankaty Client may enter into.

When a Sankaty Client buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the security in the case of a put, would result in a total loss of such Sankaty Client's investment in the option (including commissions). The Sankaty Client could mitigate those losses by selling short the securities as to which it holds call options or taking a long position (i.e., by buying the securities or buying options on them) on securities underlying put options. When a Sankaty Client sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. Theoretically, the risk is unlimited unless the option is "covered". If it is covered, an increase in the market price of the security above the exercise price would cause the applicable Sankaty Client to lose the opportunity for gain on the underlying security, assuming it bought the security for less than the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the applicable Sankaty Client might suffer as a result of owning the security. The seller of an uncovered put option theoretically could lose an amount equal to the entire aggregate exercise price of the option, if the underlying security were to become valueless. If the option were covered with a short position in the underlying security, this risk would be limited, but a drop in the security's price below the exercise price would cause the applicable Sankaty Client to lose some or all of the opportunity for profit on the "covering" short position, assuming such Sankaty Client sold short for more than the exercise price. If the price of the underlying security were to increase above the exercise price, the premium on the option (after transaction costs) would provide profit that would reduce or offset any loss the applicable Sankaty Client might suffer in closing out its short position. *Forward Trading.* Forward contracts and options thereon, unlike futures contracts, generally are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward trading (to the extent forward contracts are not traded on exchanges) and "cash" trading are substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. Sankaty will not cause Sankaty Clients to trade standardized forward contracts that are traded on regulated commodities exchanges. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market due to unusually high trading volume, political intervention or other factors. The imposition of controls by government authorities might also limit such forward (and futures) trading to less than that which Sankaty would otherwise recommend, to the possible detriment of the Sankaty Clients. Market illiquidity or disruption could result in major losses to the Sankaty Clients.

Highly Volatile Instruments. The prices of the financial instruments in which the Sankaty

Clients can invest can be highly volatile. Price movements of instruments in which the assets of Sankaty Clients may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and financial instrument options. Such intervention is intended to influence prices directly and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The investments of the Sankaty Clients also are subject to the risk of failure of any exchange on which its positions trade or of their clearinghouses.

Event-Driven Special Situations. A Sankaty Client may, from time to time, invest in “event-driven” special situations such as recapitalizations, spinoffs, corporate and financial restructurings, litigation or other catalyst-orientated situations. Investments in such securities are often difficult to analyze, and a Sankaty Client could be incorrect in its assessment of the downside risk associated with an investment, thus resulting in a significant loss. Although Sankaty intends to utilize appropriate risk management strategies, such strategies cannot fully insulate the Sankaty Clients from the risks inherent in their planned activities. Moreover, in certain situations, Sankaty may be unable to, or may choose not to, implement risk management strategies because of the costs involved or other relevant circumstances.

Contingent Liabilities. A Sankaty Client may from time to time incur contingent liabilities in connection with an investment. For example, such Sankaty Client may acquire a revolving credit or delayed draw term facility that has not yet been fully drawn or may originate or make a secondary purchase of a revolving credit facility. If the borrower subsequently draws down on the facility, the applicable Sankaty Client will be obligated to fund the amounts due which amounts may be required to be funded after the termination of the Sankaty Client investment period. A Sankaty Client may incur numerous other types of contingent liabilities. There can be no assurance that a Sankaty Client will adequately reserve for its contingent liabilities and that such liabilities will not have an adverse effect on a Sankaty Client.

Distressed Investments. A Sankaty Client may also be authorized to invest in the securities and obligations of distressed and bankrupt issuers, including debt obligations that are in covenant or payment default. Such investments generally are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid, if at all, only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments and the amount of any recovery may be affected by the relative seniority of the Sankaty Client’s investment in the capital structure of the issuer. In addition, distressed investments are more likely to be challenged as fraudulent conveyances and amounts paid on the investment may be subject to avoidance as a preference under certain circumstances.

DIP Loans. The investments of certain Sankaty Clients may consist of interests in loans issued by companies that are in bankruptcy. These investments are highly risky, as there are a number of significant risks inherent in the bankruptcy process. First, many events in a bankruptcy are the product of contested matters and adversarial proceedings and are beyond the control of the creditors. While creditors are generally given an opportunity to object to significant actions, there can be no assurance that a bankruptcy court in the exercise of its broad powers would not approve actions that would be contrary to the interests of a Sankaty Client. Second, the effect of a

bankruptcy filing on a company may adversely and permanently affect the company. The company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. If for this or any other reason the proceeding is converted to liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor's return on investment can be adversely affected by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court and until it ultimately becomes effective. Fourth, the administrative costs in connection with a bankruptcy proceeding are frequently high. Although DIP loans may in some circumstances possess priority over administrative expenses, this is not always the case, and administrative expenses may be paid out of the debtor's estate prior to any return to creditors. For example, if a proceeding involves protracted or difficult litigation, or turns into a liquidation, substantial assets may be devoted to administrative costs. Fifth, bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization. Because the standard for classification is vague, there exists the risk that a Sankaty Client's influence with respect to the class of securities it owns can be lost by increases in the number and amount of claims in that class or by different classification and treatment. Sixth, in the early stages of the bankruptcy process it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. Seventh, especially in the case of investments made prior to the commencement of bankruptcy proceedings, creditors can lose their ranking and priority if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions. Eighth, certain claims that have priority by law (for example, claims for taxes) may be quite significant. Ninth, amounts previously paid to a Sankaty Client may be challenged as fraudulent conveyances or preferences as part of a bankruptcy proceeding. See below in "Item 8: Risks -- Fraudulent Conveyance and Preference Considerations."

A Sankaty Client may invest in the securities and obligations issued by companies that are financially distressed and are expected by Sankaty to commence bankruptcy proceedings or undertake out-of-court restructurings, including debt obligations that are in covenant or payment default. Such investments generally are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. While these loans are subject to the risks inherent in the bankruptcy process as DIP loans, they are typically riskier than DIP loans because they do not possess certain protections, such as priming liens, typically afforded to DIP loans. It is more likely that a creditor making an investment made prior to the commencement of bankruptcy proceedings will be deemed to have exercised "domination and control" over a debtor and consequently lose ranking and priority. In addition, investments in pre-filing companies are more likely to be challenged as fraudulent conveyances and amounts paid on the investment may be subject to avoidance as a preference under certain circumstances.

Exit Financing. Sankaty may cause certain Sankaty Clients to invest in companies that are in the process of exiting, or that have recently exited, the bankruptcy process. Post-reorganization securities typically entail a higher degree of risk than investments in securities that have not undergone a reorganization or restructuring. Moreover, post-reorganization securities can be subject to heavy selling or downward pricing pressure after the completion of a bankruptcy reorganization or restructuring. If an evaluation by Sankaty of the anticipated outcome of an investment situation should prove incorrect, the relevant Sankaty Client could experience a loss.

Equity Securities. Sankaty Clients expect to invest in equity securities. As with other investments that the Sankaty Clients may make, the value of equity securities held by a Sankaty Client may be adversely affected by actual or perceived negative events relating to the issuer of such securities, the industry or geographic areas in which such issuer operates or the financial markets generally. However, equity securities may be even more susceptible to such events given their subordinate position in the issuer's capital structure. As such, equity securities generally have greater price volatility than fixed income securities, and the market price of equity securities owned by a Sankaty Client is more susceptible to moving up or down in a rapid or unpredictable manner.

Structured Products. Sankaty may cause certain Sankaty Clients to invest in structured products. These investments will typically consist of equity or subordinated debt securities issued by a private investment fund that invests, on a leveraged basis, in the bank loan, high yield debt or other asset groups. A Sankaty Client's investments in structured products will be subject to a number of risks, including risks related to the fact that the structured products will be leveraged. Utilization of leverage is a speculative investment technique and will generally magnify the opportunities for gain and risk of loss borne by an investor in the equity or subordinated debt securities issued by a structured product. Many structured products contain covenants designed to protect the providers of debt financing to such structured products. A failure to satisfy those covenants could result in the untimely liquidation of the structured product and a complete loss of the Sankaty Client's investment therein. In addition, if the particular structured product is invested in a security in which the Sankaty Client is also invested, this would tend to increase the Sankaty Client's overall exposure to the credit of the issuer of such securities, at least on an absolute, if not on a relative basis.

The value of an investment in a structured product will depend on the investment performance of the assets in which the structured product invests and will therefore be subject to all of the risks associated with an investment in those assets. These risks include the possibility of a default by, or bankruptcy of, the issuers of such assets or a claim that the pledging of collateral to secure any such asset constituted a fraudulent conveyance or preferential transfer that can be subordinated to the rights of other credits of the issuer of such asset or nullified under applicable law. The Sankaty Client will not own such assets directly and will therefore not benefit from general rights applicable to the holders of assets, such as the right to indemnity and the rights of setoff, or have voting rights with respect to such assets, and in such cases, all decisions related to such assets, including whether to exercise certain remedies, will be controlled by the structured product.

Structured products are a relatively recent development in the financial markets. Consequently, there are certain tax and market uncertainties that present risks relating to investing in structured products.

Leverage

Sankaty may cause certain Sankaty Clients to utilize leverage directly and indirectly. The use of leverage will increase the volatility of the Sankaty Client. While the use of borrowed funds will increase returns if the Sankaty Client earns a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage will decrease returns if the Sankaty Client fails to earn as much on such incremental investments as it pays for such investment. The effect of leverage may therefore result in a greater decrease in the net asset value of the Sankaty Client than if the Sankaty Client was not so leveraged.

Certain Sankaty Clients may enter into one or more prime brokerage agreements from time to time. Under these agreements, the Sankaty Client may also utilize leverage including engaging in trading on margin by borrowing funds and pledging securities as collateral. In addition to the general risk posed by using leverage, any use by the Sankaty Client of short-term margin borrowings will result in certain additional risks to the Sankaty Client. For example, the securities pledged to brokers to secure the Sankaty Client's margin accounts could be subject to a "margin call," pursuant to which the Sankaty Client would be required to either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. A sudden, precipitous drop in value of the Sankaty Client's assets accompanied by corresponding margin calls could force the Sankaty Client to liquidate assets quickly, and not for fair value, in order to pay off its margin debt. A Sankaty Client may also use leverage by participating in total rate of return swaps.

Investments in Undervalued Assets

Sankaty Clients may seek to invest in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses.

A Sankaty Client may be required to hold undervalued assets for a substantial period of time with the expectation that the assets will appreciate in value, even though there is no assurance that such value appreciation will take place. Accordingly, a Sankaty Client may be forced to sell such undervalued assets at a substantial loss. During this period, a portion of such Sankaty Client's funds would be committed to undervalued assets, thus possibly preventing such Sankaty Client from investing in other opportunities. In addition, the Sankaty Client may finance such purchases with borrowed funds and thus will have to pay interest on such funds during this waiting period. Finally, margin calls and other events related to such Sankaty Client's indebtedness could force such Sankaty Client to have to sell assets at prices that are less than their fair value.

General Market and Credit Risks of Debt Securities

Debt portfolios are subject to credit and interest rate risk. "Credit risk" refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, subordination, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument and securities which are rated by rating agencies are often reviewed and may be subject to downgrade. "Interest rate risk" refers to the risks associated with market changes in interest rates. Factors that may affect market interest rates include, without limitation, inflation, slow or stagnant economic growth or recession, unemployment, money supply and the monetary policies of the Federal Reserve Board and central banks throughout the world, international disorders and instability in domestic and foreign financial markets. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments may also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms,

including, among other factors the index chosen, frequency of reset and reset caps or floors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules. Sankaty expects that it will periodically experience imbalances in the interest rate sensitivities of Sankaty Clients' assets and liabilities and the relationships of various interest rates to each other. In a changing interest rate environment, Sankaty may not be able to manage this risk effectively, which in turn could adversely affect a Sankaty Client's performance. In addition, Sankaty's Clients' investments are generally expected to include subordinated or unsecured debt investments issued with a fixed yield; thus, credit risk and interest rate risk may be greater than those generally applicable to other types of debt investments.

The credit markets have experienced an unprecedented degree of dislocation since 2007. Sankaty seeks to capitalize on opportunities created by this dislocation, but this strategy carries significant risk of substantial loss if the market dislocation continues or is exacerbated by other events, such as the failure of significant financial institutions or hedge funds, dislocations in other investment markets, or extrinsic events.

Middle Market Companies

Certain Sankaty Clients may invest in small and/or less well-established companies. While smaller companies may have potential for rapid growth, they often involve higher risks because they lack the management experience, financial resources, product diversification and competitive strength of larger corporations, all of which may contribute to illiquidity, which may, in turn adversely affect the price and timing of liquidation of Sankaty's investments.

Adverse Effect of Economic Conditions

Sankaty Clients and the companies in which Sankaty Clients may invest may be adversely affected by deteriorations in the financial markets and economic conditions throughout the world, some of which may magnify the risks described herein and may have other adverse effects. Deteriorating market conditions could result in increasing volatility and illiquidity in the global credit, debt and equity markets generally. The duration and ultimate effect of recent market conditions cannot be forecast, nor is it known whether or the degree to which such conditions may remain stable or worsen. Deteriorating market conditions and uncertainty regarding economic markets generally could result in declines in the market values of potential investments or declines in the market values of investments after they are made or acquired by the Sankaty Clients. Such declines may be exacerbated by other events, such as the failure of significant financial institutions or hedge funds, dislocations in other investment markets or other extrinsic events. In addition, such declines could lead to weakened investment opportunities for Sankaty Clients, could prevent Sankaty Clients from successfully meeting their investment objectives and/or could require Sankaty Clients to dispose of investments at a loss while such unfavorable market conditions prevail.

Interest Rate, Currency Exchange and Investment Risk Management

Certain Sankaty Clients may be authorized to use various investment strategies to hedge interest rate or currency exchange risks. These strategies are generally accepted as portfolio management techniques and are regularly used by many investment funds and other institutional investors. Techniques and instruments may change over time as new instruments and strategies are developed

or regulatory changes occur. A Sankaty Client may use any or all such types of interest rate hedging transactions and currency hedging transactions at any time and no particular strategy will dictate the use of one transaction rather than another. The choice of any particular interest rate hedging transactions and currency hedging transactions will be a function of numerous variables including market conditions.

Although Sankaty intends to cause Sankaty Clients to engage in any interest rate hedging transactions and currency hedging transactions only for hedging purposes and not for speculation, use of interest rate hedging transactions and currency hedging transactions involves certain inherent risks. These risks include (i) the possibility that the market will move in a manner or direction that would have resulted in gain for a Sankaty Client had an interest rate hedging transaction or currency hedging transaction not been utilized, in which case it would have been better had such Sankaty Client not engaged in the interest rate hedging transaction or currency hedging transaction, (ii) the risk of imperfect correlation between the risk sought to be hedged and the interest rate hedging transaction or currency hedging transaction utilized, (iii) potential illiquidity for the hedging instrument utilized, which may make it difficult for the relevant Sankaty Client to close-out or unwind an interest rate hedging transaction or currency hedging transaction and (iv) credit risk with respect to the counterparty to the interest rate hedging transaction or currency hedging transaction.

The Sankaty Clients may also enter into certain hedging and short sale transactions for the purpose of protecting the market value of an investment made by such Sankaty Client for a period of time without having to currently dispose of such investment. Such defensive hedge transactions may be entered into when a Sankaty Client is legally restricted from selling an investment or when Sankaty otherwise determines that it is advisable to decrease its exposure to the risk of a decline in the market value of an investment. Such defensive hedging transactions may expose the relevant Sankaty Client to the counterparty's credit risk. There also can be no assurance that Sankaty will accurately assess the risk of a market value decline with respect to an investment or will advise or cause a Sankaty Client to enter into an appropriate defensive hedge transaction to protect against such risk. Furthermore, the Sankaty Clients are in no event obligated to enter into any defensive hedge transaction.

The Sankaty Clients may from time to time employ various investment programs including the use of derivatives, short sales, swap transactions, currency hedging transactions, securities lending agreements and repurchase agreements. There can be no assurance that any such investment program will be undertaken successfully.

Exposure to Originated Investments

A Sankaty Client may originate certain of its investments with the expectation of later syndicating a portion of such investment to other affiliated funds or third parties. Prior to such syndication, or if such syndication is not successful, such Sankaty Client's exposure to the originated investment may exceed the exposure that Sankaty intends for such Sankaty Client to have over the long-term or would have had had it purchased such investment in the secondary market rather than originating it.

Third Party Litigation

In addition to litigation relating to the bankruptcy process as described above under “Item 8: Risks — Nature of a Sankaty Client Investments — DIP Loans,” the Sankaty Clients’ investment activities subject them to the normal risks of becoming involved in litigation by third parties. This risk is somewhat greater where the relevant Sankaty Client exercises control or significant influence over a company’s direction. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the relevant Sankaty Client and would reduce net assets.

Operating and Financial Risks of Investments

Companies in which Sankaty Clients invest may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities, or a larger number of qualified managerial and technical personnel. As a result, portfolio companies which Sankaty expects to be stable may operate at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or to maintain their competitive position or may otherwise have a weak financial condition or be experiencing financial distress.

Portfolio companies may issue certain types of debt, such as mezzanine or high yield, in connection with leveraged acquisitions or recapitalizations in which the portfolio company incurs a substantially higher amount of indebtedness than the level at which it had previously operated.

Third-Party Involvement

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

Reliance on Management of Sankaty Partnerships

Limited Partners in Sankaty Partnerships have no right or power to take part in the management of the Sankaty Partnership. In addition, Limited Partners will not have an opportunity to evaluate the relevant economic, financial or other information regarding specific investments made by Sankaty Partnerships or the terms of any investment. An investor in Sankaty Partnership must rely upon the ability of Sankaty and its advisors in identifying and implementing investments. Accordingly, no investor should purchase a Limited Partnership interest unless such investor is willing to entrust all aspects of the management of the Sankaty Partnership to the General Partner and Sankaty.

The success of a Sankaty Partnership is highly dependent on the financial and managerial expertise of Sankaty. Although Sankaty has attempted to foster a team approach to investing, the loss of key individuals employed by Sankaty could have a material adverse effect on the performance of a

Sankaty Partnership. In addition, a number of members of the professional staff of Sankaty are investors in, and are actively involved in managing the investment decisions of, other Sankaty Partnerships advised by Sankaty. Accordingly, the members of the professional staff of Sankaty will have demands on their time for the investment, monitoring and other functions of other Sankaty Partnerships advised by Sankaty.

Fluctuations of Investment Values and Potential Illiquidity of Investments

The market value of the investments of each Sankaty Client will fluctuate with, among other things, changes in market rates of interest, general economic conditions and economic conditions in particular industries, the condition of financial markets and the financial condition of the issuers of the Sankaty Client's investments. In addition, the lack of an established, liquid secondary market for some of the Sankaty Clients' investments may have an adverse effect on the market value of such investments and on the Sankaty Clients' ability to dispose of them. Additionally, the Sankaty Clients' investments may be subject to certain transfer restrictions that may also contribute to illiquidity. Finally, assets of Sankaty Clients that are typically traded in a liquid market may become illiquid if the applicable trading market tightens as a result of a significant macro-economic shock or for any other reason. Therefore, no assurance can be given that, if Sankaty is determined to cause the disposal of a particular such investment held by a Sankaty Client, it could dispose of such investment at the prevailing market price. Such illiquidity may adversely affect the price and timing of liquidation of the Sankaty Clients' investments upon the redemption of an investor's interest, to pay expenses of the Sankaty Clients or to pay the Advisory Fee.

A portion of a Sankaty Client's investments may consist of securities that are subject to restrictions on resale by such Sankaty Client because they were acquired in a "private placement" transaction or because such Sankaty Client is deemed to be an affiliate of the issuer of such securities. Generally, a Sankaty Client will be able to sell such securities only under Rule 144 under the Securities Act, which permits limited sales under specified conditions, or pursuant to a registration statement under the Securities Act. When restricted securities are sold to the public, a Sankaty Client may be deemed to be an underwriter or possibly a controlling person, with respect thereto for the purposes of the Securities Act and be subject to liability as such under the Securities Act.

In addition, Sankaty may, from time to time, possess material, non-public information about a borrower or issuer or Sankaty may be an affiliate of a borrower or an issuer. Such information or affiliation may limit the ability of the applicable Sankaty Client to buy and sell investments.

Currency Exchange Risk

Investments or liabilities of the Sankaty Clients may be denominated in currencies other than the U.S. dollar, and hence the value of such investments, or the amount of such liabilities, will depend in part on the relative strength of the U.S. dollar. The Sankaty Clients may be affected favorably or unfavorably by exchange control regulations or changes in the exchange rate between foreign currencies and the U.S. dollar. Changes in foreign currency exchange rates may also affect the value of dividends and interest earned, and the level of gains and losses realized on the sale of securities. The rates of exchange between the U.S. dollar and other currencies are affected by many factors, including forces of supply and demand in the foreign exchange markets.

These rates are also affected by the international balance of payments and other economic and financial conditions, government intervention, speculation and other factors. The Sankaty Clients are not obligated to engage in any currency hedging operations, and there can be no assurance as to the success of any hedging operations that a Sankaty Client may implement. See “Item 8: Risks -- Interest Rate, Currency Exchange and Investment Risk Management.”

Participation on Creditors’ Committees

Sankaty may participate on behalf of a Sankaty Client on committees formed by creditors to negotiate the management of financially troubled companies that may or may not be in bankruptcy or Sankaty may seek to negotiate on behalf of a Sankaty Client directly with the debtors with respect to restructuring issues. If Sankaty does join a creditors’ committee on behalf of a Sankaty Client, the participants of the committee would be interested in obtaining an outcome that is in their respective individual best interests and there can be no assurance of obtaining results most favorable to the applicable Sankaty Client in such proceedings. By participating on such committees, Sankaty may be deemed to have duties to other creditors represented by the committees, which might thereby expose the Sankaty Clients to liability to such other creditors who disagree with the actions.

Sankaty may also be provided with material non-public information that may restrict Sankaty’s ability to trade in the company’s securities on a Sankaty Client’s behalf. While Sankaty and the Sankaty Clients intend to comply with all applicable securities laws and to make judgments concerning restrictions on trading in good faith, Sankaty may trade in the company’s securities on a Sankaty Client’s behalf while engaged in the company’s restructuring activities. Such trading creates a risk of litigation and liability that may cause the Sankaty Client to incur significant legal fees and potential losses.

Lender Liability Considerations and Equitable Subordination

In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed “lender liability”). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of the Sankaty Clients’ investments, a Sankaty Client could be subject to allegations of lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of the other creditors of such borrower, a court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination.” Because of the nature of certain of the Sankaty Clients’ and their affiliates’ investments, a Sankaty Client could be subject to claims from creditors of an obligor that such Sankaty Client’s investments issued by

such obligor should be equitably subordinated. Some of the investments of the Sankaty Clients will involve investments in which the applicable Sankaty Client would not be the lead creditor. It is, accordingly, possible that lender liability or equitable subordination claims affecting the investments of a Sankaty Client could arise without the direct involvement of such Sankaty Client.

If a Sankaty Client purchases debt securities of an affiliate in the secondary market at a discount, (i) a court might require such Sankaty Client to disgorge profit it realizes if the opportunity to purchase such securities at a discount should have been made available to the issuer of such securities or (ii) such Sankaty Client might be prevented from enforcing such securities at their full face value if the issuer of such securities becomes bankrupt.

Fraudulent Conveyance and Preference Considerations

Various federal and state laws enacted for the protection of creditors may apply to the purchase of investments by a Sankaty Client, by virtue of such Sankaty Client's role as a creditor with respect to the borrowers under such investments. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of a borrower, such as a trustee in bankruptcy or the borrower as debtor-in-possession, were to find that the borrower did not receive fair consideration or reasonably equivalent value for incurring indebtedness evidenced by an investment and the grant of any security interest or other lien securing such investment, and, after giving effect to the incurring of such indebtedness, the borrower (i) was insolvent, (ii) was engaged in a business for which the assets remaining in such borrower 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 invalidate, in whole or in part, such indebtedness and such security interest or other lien as fraudulent conveyances, could subordinate such indebtedness to existing or future creditors of the borrower or could allow the borrower to recover amounts previously paid by the borrower to the creditor (including to a Sankaty Client) in satisfaction of such indebtedness or proceeds of such security interest or other lien previously applied in satisfaction of such indebtedness. In addition, in the event of the insolvency of an issuer of an investment, payments made on a Sankaty Client's investment could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year) before insolvency depending on a number of factors, including the amount of equity of the borrower owned by the Sankaty Client and its affiliates and any contractual arrangement between the borrower, on the one hand, and such Sankaty Client and its affiliates, on the other hand. The measure of insolvency for purposes of the foregoing will vary depending on the law of the jurisdiction which is being applied. Generally, however, a borrower would be considered insolvent at a particular time if the sum of its debts was greater than all of its assets at a fair valuation or if the then-present fair saleable value of its assets was less than the amount that would be required to pay its probable liabilities on its then-existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether a borrower was insolvent after giving effect to the incurrence of the loan or that, regardless of the method of evaluation, a court would not determine that the borrower was "insolvent" upon giving effect to such incurrence.

In general, if payments on an investment are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as a Sankaty Client) or from subsequent transferees of such payments, including investors in Sankaty Funds.

Investment in non-U.S. Issuers

Certain Sankaty Clients may invest in the securities of non-U.S. issuers. There may be less information publicly available about a non-U.S. issuer than about a U.S. issuer, and non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and practices comparable to those in the United States. In addition, with respect to certain countries, there is a possibility of expropriation, imposition of non-U.S. withholding or other taxes on dividends, interest, capital gains or other income, limitations on the removal of funds or other assets of a Sankaty Client, political or social instability or diplomatic developments that could affect investments in those countries. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other.

Bankruptcy law and process in non-U.S. jurisdictions may differ substantially from that in the United States, which may result in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain, while other developing countries may have no bankruptcy laws enacted, adding further uncertainty to the process for reorganization.

Mezzanine Debt

The mezzanine investments in which a Sankaty Client intends to invest are typically contractually or structurally subordinate to senior indebtedness of the applicable company, or effectively subordinated as a result of being unsecured debt and therefore subject to the prior repayment of secured indebtedness to the extent of the value of the assets pledged as security. In some cases, the subordinated debt held by a Sankaty Client may be subject to the prior repayment of different classes of senior debt that may be “layered” ahead of the debt held by a Sankaty Client. In the event of financial difficulty on the part of a portfolio company, such class or classes of senior indebtedness ranking prior to the debt held by a Sankaty Client, and interest thereon and related expenses, must first be repaid in full before any recovery may be had on a Sankaty Client’s mezzanine or other subordinated investment. Subordinated investments are characterized by greater credit risks than those associated with the senior or senior secured obligations of the same issuer. In addition, under certain circumstances the holders of the senior indebtedness will have the right to block the payment of interest and principal on a Sankaty Client’s mezzanine investment and to prevent a Sankaty Client from pursuing its remedies on account of such non-payment against the company. Further, in the event of any debt restructuring or workout of the indebtedness of any company, the holders of the senior indebtedness will likely control the creditor side of such negotiations.

Many issuers of mezzanine debt are highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. In addition, many issuers of mezzanine debt may be in poor financial condition, experiencing poor operating results, having substantial capital needs or negative net worth or be facing special competitive or product obsolescence problems, and may include companies involved in bankruptcy or other reorganizations or liquidation proceedings. Adverse changes in the financial condition of an issuer, general economic conditions, or both, may impair

the ability of such issuer to make payments on the subordinated securities and result in defaults on such securities more quickly than in the case of the senior obligations of such issuer. Mezzanine debt securities may not be publicly traded, and therefore it may be difficult to obtain information as to the true condition of the issuers. Finally, the market values of certain of this mezzanine debt may reflect individual corporate developments.

Mezzanine debt investments may also be in the form of zero-coupon or deferred interest bonds, which are bonds which are issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. These investments typically experience greater volatility in market value due to changes in the interest rates than bonds that provide for regular payments of interest.

Potential Early Redemption of Some Investments

The terms of loans acquired or originated by a Sankaty Client may be subject to early prepayment options or similar provisions which, in each case, could result in a Sankaty Client realizing such loans earlier than expected, sometimes with no or a nominal prepayment premium. This may happen when there is a decline in interest rates, when the portfolio company's improved credit or operating or financial performance allows the refinancing of certain classes of debt with lower cost debt or when the general credit market conditions improve. In the event a Sankaty Client receives proceeds from an investment earlier than it had anticipated, a Sankaty Client may be permitted to reinvest such proceeds, but there is no assurance that a Sankaty Client will be able to reinvest such proceeds even where they are received during the Investment Period. A Sankaty Client's inability to reinvest such proceeds may materially affect the performance of a Sankaty Client.

Limited Amortization Requirements

Sankaty Clients may invest in debt that will typically have limited mandatory amortization and interim repayment requirements. A low level of amortization of any debt, over the life of the investment, may increase the risk that a portfolio company will not be able to repay or refinance the debt held by a Sankaty Client when it comes due at its final stated maturity.

Reliance on Management of the Investment Adviser

The success of the Sankaty Clients is highly dependent on the financial and managerial expertise of Sankaty. Although Sankaty has attempted to foster a team approach to investing, the loss of key individuals employed by Sankaty could have a material adverse effect on the performance of the Sankaty Clients (or, as applicable, their accounts). Such individuals may not necessarily continue to be employed by Sankaty during the entire period in which Sankaty provides advisory services to the Sankaty Clients. In addition, a number of members of the professional staff of Sankaty are investors in other funds advised by Sankaty and are actively involved in managing the investment decisions of these funds. Thus the members of the professional staff of Sankaty will have demands on their time for the investment, monitoring and other functions of other funds advised by Sankaty.

Widening Risk

For reasons not necessarily attributable to any of the risks set forth herein, the prices of the securities and other financial assets in which the Sankaty Clients invest may decline substantially. In particular, purchasing assets at what may appear to be “undervalued” levels is no guarantee that these assets will not be trading at even lower levels at a time of valuation or at the time of sale. It is not possible to predict, or to hedge against, such “spread widening” risk.

Financially Troubled Companies

Sankaty Clients may invest in the obligations of companies that are financially troubled and that are either engaged in a reorganization or expect to file for bankruptcy. Investments in financially troubled companies involve significantly greater risk than investments in non-troubled companies, and the repayment of obligations of financially troubled companies is subject to significant uncertainties. Such companies generally are more vulnerable to real or perceived economic changes, political changes or adverse industry developments, and if their financial condition deteriorates, accurate financial and business information may be limited or unavailable. In addition, securities of such companies may be thinly traded and there may be no established secondary or public market. The level of analytical sophistication, both financial and legal, necessary for successful financing to companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Partnership will correctly evaluate the value of the assets collateralizing a Sankaty Client’s loans or the prospects for a successful reorganization or similar action. Additionally, a Sankaty Client’s may invest in the securities of financially troubled companies that are non-U.S. issuers. Such non-U.S. issuers may be subject to bankruptcy and reorganization processes and proceedings that are not comparable to those in the United States and that may be less favorable to the rights of lenders.

A Sankaty Client may make investments that become distressed due to factors outside the control of the Investment Advisor. There is no assurance that there will be sufficient collateral to cover the value of the loans and/or other investments purchased by a Sankaty Client or that there will be a successful reorganization or similar action of the company or investment which becomes distressed. In any reorganization or liquidation proceeding relating to a company in which a Sankaty Client invests, a Sankaty Client may lose its entire investment, may be required to accept cash or securities with a value less than a Sankaty Client’s original investment and/or may be required to accept payment over an extended period of time. Under these circumstances, the returns generated from a Sankaty Client’s investments may not compensate the Limited Partners adequately for the risks assumed. For example, under certain circumstances, a lender who has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated, or disallowed, or may be found liable for damage suffered by parties as a result of such actions. In addition, under circumstances involving a portfolio company’s insolvency, payments to a Sankaty Client and distributions by a Sankaty Client to the Limited Partners may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Troubled company investments require active monitoring and may, at times, require significant participation in business strategy or reorganization proceedings by the Investment Advisor. In addition, involvement by Sankaty in a company’s reorganization proceedings could result in the imposition of restrictions limiting a Sankaty Client’s ability to liquidate its position in the

company.

Trading Risk

Sankaty's trade error policy only requires Sankaty to reimburse Sankaty Clients for any losses resulting from Sankaty's breach of the applicable standard of care (generally gross negligence or willful misconduct). Although Sankaty's traders endeavor to take the utmost care in implementing investment decisions on behalf of each of Sankaty Client, trade errors do occur and could have a material adverse impact on the performance of any or all Sankaty Clients.

Different risks may exist with respect to investments in different Sankaty Funds and Separate Account Clients. The risks associated with an investment in any particular Sankaty Fund or Separate Account Client may be substantially impacted by the nature and timing of the market.

Business and Regulatory Risks of Private Investment Funds

Legal, tax and regulatory changes could occur during the term of a Sankaty Client that may adversely affect a Sankaty Client. The regulatory environment for private investment funds is evolving, and changes in the regulation of private investment funds may adversely affect the value of fund interests, including by adversely affecting the value of investments held by a Sankaty Client and the ability of a Sankaty Client to obtain the leverage it might otherwise obtain or to pursue its trading strategies. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, the CFTC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by domestic and foreign government and judicial action. The effect of any future regulatory change on a Sankaty Client could be substantial and adverse.

Item 9. Disciplinary Information

No material items exist as of this time.

Item 10. Other Financial Industry Activities and Affiliations

Related General Partners

One of several limited liability companies (each, an "Ultimate General Partner") serves as the general partner of the general partner of each Sankaty Partnership, and Mr. Jonathan S. Lavine, Managing Director, managing partner and Chief Investment Officer of Sankaty, is the managing member of each Ultimate General Partner.

Affiliated Advisers

Sankaty currently has four affiliated advisers based in the U.S., each of which focuses primarily on a different area of investment management, although such areas may overlap from time to time (such advisers, together with Sankaty, the "U.S. Affiliate Advisers"). Each U.S. Affiliate

Adviser is registered as an investment adviser with the Securities and Exchange Commission. The U.S. Affiliate Advisers currently include, in addition to Sankaty:

- Bain Capital Partners, LLC, which focuses on leveraged buyouts and growth capital in a wide variety of industries;
- Brookside Capital, LLC, the public equity affiliate of Bain Capital, whose primary objective is investing in securities of publicly-traded companies that offer opportunities to realize substantial long-term capital appreciation;
- Bain Capital Venture Partners, LLC, the venture capital arm of Bain Capital, which focuses on seed through late-stage growth equity investing in software, hardware, information, healthcare and technology-driven business services companies; and
- Absolute Return Capital, LLC, which manages assets in fixed income, equity and commodity markets to produce attractive risk-adjusted returns while maintaining low correlation to traditional investments.

In addition to the U.S. Affiliate Advisers, Bain Capital Europe, LLP. and Sankaty Advisors Ltd., both affiliates of Bain Capital, are licensed as investment advisers with the United Kingdom Financial Conduct Authority (together with the U.S. Affiliate Advisers, the “Affiliate Advisers”).

Each of the U.S. Affiliate Advisers’ investment activities are conducted independently, but the U.S. Affiliate Advisers may provide an extensive personal network and access to vertical industry expertise. On occasion, the Sankaty Clients may also benefit from attractive non-traditional investment opportunities from U.S. Affiliate Advisers.

Bain Capital has established other non-investment advisory related entities which are affiliates of the U.S. Affiliate Advisers. These entities do not provide investment advisory services and have been organized primarily to provide services incidental to the services of the U.S. Affiliate Advisers.

Potential Conflicts of Interest

As a diversified private investment firm, Bain Capital and its affiliates, including Sankaty, engage in a broad range of activities, including investment activities for their own account (such as co-investment vehicles) and for the account of other investment funds or accounts and provide investment banking, advisory, management and other services to funds and operating companies.

Bain Capital currently has a number of affiliate advisors, including Sankaty (the “Affiliate Advisors”), each of which focuses primarily on a different investment strategy, although such investment strategies overlap from time to time.

The funds and accounts managed by the Affiliate Advisors are referred to as “Clients.” The funds and accounts managed by Sankaty are referred to as the “Sankaty Clients.” In the ordinary course of conducting its activities, the interests of a Sankaty Client may conflict with the

interests of Sankaty, other Clients or their respective affiliates.

Resolution of Conflicts

Each of Sankaty and the other Affiliate Advisors will deal with all conflicts of interest using its best judgment, but in its sole discretion. When conflicts arise between a Sankaty Client and other Clients, Sankaty will represent the interests of the Sankaty Client, and the other participating Affiliate Advisor will represent the interests of the other Client it advises. In resolving conflicts, Sankaty and the other Affiliate Advisors may consider various factors, including the interests of the funds and accounts they advise in the context of both the immediate issue at hand and the longer term course of dealing among the Sankaty Clients and the other Clients. When conflicts arise between a Sankaty Client and another Sankaty Client, Sankaty will resolve the conflict. In doing so, it may consider various factors, including the interests of such Sankaty Client and the other Sankaty Client with respect to the immediate issue and/or with respect to the longer term course of dealing among the Sankaty Clients. In the case of all conflicts involving a Sankaty Client, Sankaty's determination as to which factors are relevant, and the resolution of such conflicts will be made in Sankaty's sole discretion

Sources of Conflicts of Interest

There are numerous perceived and actual conflicts of interest among Sankaty, the Affiliate Advisors, other Clients and the Sankaty Clients. The conflicts of interest that may be encountered by a Sankaty Client include those discussed below, although the discussion below does not describe all of the conflicts that may be faced by such Sankaty Client. Dealing with conflicts of interest is complex and difficult, and new and different types of conflicts may subsequently arise

Conflicts Relating to the General Partner, Sankaty and Certain Affiliate Advisors

Sankaty Personnel

It is expected that most or all of the officers and employees responsible for managing the Sankaty Funds or accounts for Separate Account Clients will have responsibilities with respect to other funds or accounts managed by Sankaty, including funds and accounts that may be raised in the future. Substantial time will be spent by such officers and employees monitoring the investments of other Sankaty Clients. Conflicts of interest may arise in allocating time, services or functions of these officers and employees.

Advisory Services

In addition, the other Affiliate Advisors perform advisory and other services for, and will receive compensation from, a number of entities, which may include entities in which Sankaty Clients have interests. These fees will not be shared with the Sankaty Clients.

The Affiliate Advisors have existing and potential advisory and other relationships with a significant number of portfolio companies and other clients, and may provide financing, services, advice or otherwise deal with third parties whose interests conflict with the interests of a company in which a Sankaty Client has invested, such as competitors, suppliers or customers of a company in which the Sankaty Client has invested. An Affiliate Advisor may recommend or

cause such a third party to take actions that are adverse to a Sankaty Client or companies in which it has invested.

Carried Interest

The General Partner of a Sankaty Partnership is entitled to carried interest under the terms of the Partnership Agreement. The existence of the General Partner's carried interest may create an incentive for the General Partner to cause a Sankaty Partnership to make more speculative investments than it would otherwise make in the absence of performance-based compensation. In calculating the carried interest and making corresponding distributions, Sankaty will value investments to determine how distributions should be made. No independent appraisal will be obtained. If the valuations conducted by Sankaty are incorrect, the amount and timing of the payment of the carried interest to the General Partner could be incorrect. In addition, the method of calculating the carried interest may result in conflicts of interest between Sankaty, on the one hand, and the investors in the Sankaty Clients on the other hand, with respect to the management disposition and valuation of investments.

Diverse Investor Base of Sankaty Clients

The Sankaty Funds and other Clients may have tax exempt, taxable, on U.S. foreign and other investors, whereas most members of the General Partner and of the Sankaty Partnerships and other Clients and most members of Sankaty are taxable at individual U.S. rates. Potential conflicts exist with respect to various structuring, investment and other decisions because of divergent tax, economic or other interests, including conflicts among the interests of taxable and tax exempt investors, conflicts among the interests of U.S. and non-U.S. investors, and conflicts between the interests of investors and management with regard to the Sankaty Clients. For these reasons, among others, decisions may be more beneficial for one investor than for another investor, particularly with respect to investors' individual tax situations.

Co-Investments Alongside Bain Capital Funds

A Sankaty Client may, from time to time, make co-investments in transactions sourced by Bain Capital Partners, LLC, the Affiliated Advisor which advises Clients that make private equity investments (the "Private Equity Advisor"), Bain Capital Venture Partners, LLC, the Affiliated Advisor which advises Clients that make venture capital investments (the "Venture Advisor") and Brookside Capital, LLC, the Affiliated Advisor which advises Clients that make public equity investments (the "Public Equity Advisor" and, collectively with the Private Equity Advisor and the Venture Advisor, the "Co-Investment Advisors"). When such a Client makes a private equity investment, the applicable Co-Investment Advisor may perform management, advisory, investment banking, financial advisory and other services for, and will receive fees from, actual or prospective portfolio companies. Additionally, a portfolio company of a Sankaty Client advised by a Co-Investment Advisor may reimburse such Co-Investment Advisor for expenses incurred by such Co-Investment Advisor in connection with its performance of services for such portfolio company. Although a Co-Investment Advisor receives these fees and reimbursements from actual or prospective portfolio companies, the opportunity to earn these fees creates a conflict of interest between the Co-Investment Advisor, on the one hand, and, to the extent such Sankaty Client co-invests in the transaction, the Sankaty Client on the other hand, because the amounts of such fees and reimbursements may be substantial and the Sankaty Client will not share

in such fees and reimbursements.

Conflicts Relating to the Purchase and Sale of Investments

Transactions Between Sankaty Clients

Sankaty may cause a Sankaty Client to purchase investments from, or sell investments to, another Sankaty Client. Sankaty will only cause a Sankaty Client to engage in such transactions if it determines that the terms and conditions of such transactions are substantially advantageous to the Sankaty Clients as the terms it would obtain in a comparable arm's length transaction with a third party or if such transactions are effected at prices determined in accordance with a Sankaty Client's security valuation procedures. Conflicts may also arise in connection with loans or other assets originated by a Sankaty Client and sold to other Sankaty Clients. A Sankaty Client may sell a portion of any loans or other assets originated by a Sankaty Client; thus, a Sankaty Client's initial participation in such loans or other assets may be greater than it would have been if such a Sankaty Client did not expect to ultimately sell part of such loans or other assets to another Sankaty Client. To the extent a Sankaty Client purchases loans or other assets in order to sell a portion, a Sankaty Client will bear the risk of changes in the value of such loans or other assets during the period it holds such loans or other amounts and the amount of capital available to a Sankaty Client to pursue other investment opportunities may be reduced. Furthermore, it may be difficult to determine the value of the loans or other assets transferred by a Sankaty Client and hence the consideration due to a Sankaty Client from other Sankaty Clients when it sells the loans or other assets. The valuation of loans or other assets to be transferred from a Sankaty Client to other Sankaty Clients involves inherent conflicts of interest for the Investment Advisor.

Allocation of Investment Opportunities

Sankaty sponsors and manages various investment vehicles, and may form new investment vehicles in the future. Other Sankaty Clients may make certain investments that are appropriate for each Sankaty Client, whether such transaction is consistent with Sankaty's best execution obligation, the cost of execution through a third party, and the pricing methodology. Other Clients may invest in assets eligible for purchase by a Sankaty Client. The investment policies, fee arrangements, carried interest, investments owned by employees of Sankaty or the other Affiliate Advisors, and other circumstances of such Sankaty Client, may vary from those of other Clients. These relationships may present conflicts of interest in determining how much, if any, of certain investment opportunities to offer to the Sankaty Client. Subject to any requirements of the governing instruments of the Sankaty Clients and other Clients, opportunities for investments will be allocated between a Sankaty Client and other Clients in a manner that Sankaty and the other Affiliate Advisors, as well as the Clients' respective general partners, believe in their sole discretion to be appropriate given factors they believe to be relevant. Such factors may include the investment objectives, geography, nature of the target's business, scale, transaction sourcing, liquidity, diversification, lender covenants and other limitations of the Sankaty Clients and other Clients, and the amount of capital each then has available for such investment, any exclusive rights to investment opportunities that may have been granted to other Sankaty Clients or Clients, the expected duration of the investment in light of the term of the other Sankaty Clients and the other Clients, regulatory and tax considerations, the degree of risk arising from an investment, the expected investment return and such other factors as Sankaty and Bain Capital deems to be appropriate. In general, while investments sourced by an Affiliate

Advisor that are appropriate for Clients advised by such Affiliate Advisor will first be made available to such other Clients, Sankaty and Bain Capital have substantial discretion in allocating investment opportunities. The foregoing methodology for allocation of investment opportunities will likely vary over time and will be on a case-by-case basis.. Sankaty also reserves the right to make independent decisions with regard to when a Sankaty Client should purchase and sell investments, and the other Affiliate Advisers reserve similar rights with respect to the Clients that they advise. As a result, a Sankaty Client may be purchasing an investment at a time when another Client is selling the same or a similar investment, or vice versa. A Sankaty Client may invest in opportunities that other Clients have declined, and likewise, a Sankaty Client may decline to invest in opportunities in which other Clients have invested.

Investments Alongside Sankaty Clients and other Clients

Conflicts also may arise when a Sankaty Client makes investments in conjunction with an investment made by other Clients, or in a transaction where another Client has already made an investment (including the investment by the Sankaty Clients in the initial syndication of a loan made to a Bain Capital portfolio company). Investment opportunities may be appropriate for a Sankaty Client and certain Clients at the same, different or overlapping levels of a portfolio company's capital structure. Conflicts may also arise in determining the terms of investments, especially where Sankaty and/or other Affiliate Advisors control the structure of a transaction and its capitalization. For example, if a Sankaty Client is investing in debt securities, it will have an interest in structuring debt securities that have financial terms (such as interest rates, repayment terms, seniority, covenants and events of default) that are more restrictive than another Client, as an equity owner, may desire and conflicts will arise if the debt securities become distressed. In addition, a conflict may arise in allocating an investment opportunity if the potential target could be acquired by another Sankaty Client or a portfolio company of another Sankaty Client. There can be no assurance that the return on a Sankaty Client's investments will not be less than the returns obtained by other Clients participating in the transaction. Employees and related persons of Sankaty and the other Affiliate Advisors have made or may make large capital investments in or alongside certain other Clients, and therefore may have additional conflicting interests in connection with joint investments. Each Affiliate Advisor will determine all matters relating to structuring transactions and capitalizing portfolio companies, including the amount and terms of securities and allocation of securities among the involved Clients, using its best judgment considering all factors it deems relevant, but in its sole discretion. The allocation of securities as among Sankaty Clients and as between Sankaty Clients and other Clients may be affected by a fund's stage in its life cycle. For example, a newly organized fund may seek to purchase a disproportionate amount of investments until it is ramped up.

Investment in Other Sankaty Clients

A Sankaty Client may invest in other funds or structured products sponsored by Sankaty or other Affiliate Advisors. A Sankaty Client's interest in any such fund or structured product would be subject to the terms and conditions of such fund or product, including fees and carried interest, provided that the general partner of, and the Affiliate Advisor to, such fund or product, may in their sole discretion waive all or a portion of such fees and carried interest with respect to the Sankaty Client.

Allocation of Fees and Expenses

The appropriate allocation among the Clients of expenses and fees generated in the course of evaluating and making investments often may not be clear, especially where more than one Client participates. For instance, if a Sankaty Client and another Sankaty Client are considering making an investment that is not consummated, allocation of the expenses generated for the account of the Sankaty Client and such other Client (such as expenses of common counsel and other professionals) will be made in good faith. When Sankaty and the other Affiliate Advisors incur expenses that were related to the Sankaty Client and/or other Clients, they will typically allocate such expenses among all Sankaty Clients and other Clients eligible to reimburse expenses of the applicable nature. In general, Sankaty and each other affected Affiliate Advisor will participate in the resolution of all such matters using its best judgment, considering all factors it deems relevant, but in its sole discretion.

Investment in a Sankaty Partnership by Clients

Certain Clients may invest in a Sankaty Partnership as limited partners. Sankaty may from time to time in its sole discretion provide the Affiliate Advisor of any such Clients certain information about the applicable Sankaty Partnership's investment portfolio, although it is under no obligation to do so and may decide not to provide any such information at any time. As a condition of receiving such information, the Affiliate Adviser must agree that it will use such information solely for the purpose of making investment recommendations to such Client with respect to hedging its long exposure to certain investment sectors and geographies, and not for the purpose of making any other investment recommendations to such Client or for any other purpose and it must agree not to disclose such information to any other person.

A Sankaty Partnership may waive advisory fees and performance allocations, if applicable, with respect to Clients that are limited partners in such Sankaty Partnership. Affiliate Advisers may receive advisory fees and performance allocations from the Clients. The Clients may own equity in issuers of the loans to be held by a Sankaty Client, which will create a conflict of interest if the loans become distressed.

Material, Non-Public Information; Trading Restrictions

From time to time, Sankaty or another Affiliate Advisor may come into possession of material, non-public information, and such information may limit the ability of the Sankaty Client to buy and sell investments. Although Bain Capital currently maintains "ethical walls" which reduce the likelihood that Sankaty will be deemed to possess material, non-public information possessed by other Affiliate Advisors, there is no guarantee that Bain Capital will maintain "ethical walls" for the life of the Sankaty Client. Furthermore, Sankaty and the other Affiliate Advisors may agree from time to time to "cross" ethical walls, and Bain Capital may from time to time impose restrictions on transactions involving particular issuers in its sole discretion taking into account all factors it deems relevant in the collective interest of Sankaty and the other Affiliate Advisors. In such cases, the Sankaty Clients and other Clients could be restricted indefinitely in transactions involving a particular issuer. Consequently, the possession of material, non-public information by other Affiliate Advisors may limit the ability of the Sankaty Client to buy and sell investments. In addition, Sankaty may be restricted by contract from using confidential information that it, or another Affiliate Advisor, has for the benefit of a Sankaty Client.

Conflicts Relating to Existing Investments

Affiliated Investments

Further conflicts may arise once a Sankaty Client has made an investment in a company in which another Client has also invested, particularly where a Sankaty Client or other Clients invest in different types of securities. For example, questions may arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, raise conflicts of interest. The involvement of Affiliate Advisors at both the equity and debt levels could inhibit strategic information exchanges among other creditors. In certain circumstances, the other Sankaty Clients or the other Clients may be prohibited from exercising voting or other rights, and may be subject to claims by other creditors with respect to the subordination of their interest. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, the Sankaty Client or other Clients may or may not provide such additional capital, and if provided the Sankaty Client and each other Client will supply such additional capital in such amounts, if any, as determined by Sankaty and the other relevant Affiliate Advisors in their sole discretion. Sankaty and each other Affiliate Advisor will resolve all such conflicts using their best judgment but in their sole discretion, subject in certain cases to approval by the advisory boards or investment committees of the participating Clients.

Follow-on Investments

Investments to finance follow-on acquisitions are a regular part of the business of the Sankaty Clients and certain other Clients. Follow-on investments present conflicts of interest, including determination of the equity component and other terms of the new financing. In addition, a Sankaty Client may participate in releveraging and recapitalization transactions involving portfolio companies in which other Clients have invested or will invest. Recapitalization transactions may present conflicts of interest, including determinations of whether existing investors are being cashed out at a price that is higher or lower than market value and whether new investors are paying too high or too low a price for the company or purchasing securities with terms that are more or less favorable than the prevailing market terms. Sankaty and each other Affiliate Advisor will resolve all such conflicts using their best judgment but in their sole discretion, subject in certain cases to approval by the respective advisory boards or investment committees of the participating Clients.

Co-Investment Opportunities

Sankaty may, but shall not be required to, provide opportunities to co-invest with other Sankaty Clients to various third parties including, without limitation, certain Sankaty Clients, other Clients, their respective affiliates and/or Sankaty employees. Sankaty employees may participate with Sankaty Clients in one or more investments. The allocation of such co-investment opportunities may or may not be in proportion to the commitments of such Sankaty Clients and may involve different terms and fee structures. In these cases although Sankaty will seek to act in the best interest of the Sankaty Clients, it might be alleged that the Sankaty Clients received a smaller investment allocation in the particular issuer than it otherwise might have received if Sankaty had not provided the third party with the co-investment opportunity.

Equity Investments

The Sankaty Clients and/or other Clients may in many cases own a significant or controlling percentage of the common equity of a portfolio company which, depending upon the amount of equity owned by it, any relevant contractual arrangements between such portfolio company and the participating funds, and other relevant factual circumstances, could result in an extension to of bankruptcy preference periods with respect to payments made to a Sankaty Client and/or subordination of its claims to other creditors and/or recharacterization of debt claims into equity claims. In addition, because of their equity ownership, representation on the boards of directors, and/or contractual rights, the Sankaty Clients and other Clients may be thought to control, participate in the management of or influence the conduct of portfolio companies. The effect of these relationships will vary from jurisdiction to jurisdiction. These factors could expose the assets of a Sankaty Client to claims by a portfolio company, its security holders, its creditors or governmental agencies.

Debt Investments

If a Sankaty Client purchases debt securities of an affiliate in the secondary market at a discount, (a) a court might require the Sankaty Client to disgorge profit it realizes if the opportunity to purchase such securities at a discount should have been made available to the issuer of such securities, or (b) the Sankaty Client might be prevented from enforcing such securities at their full face value if the issuer of such securities becomes bankrupt. The effect of these transactions will vary in from jurisdiction to jurisdiction.

Private Placements

A portion of a Client's investments may consist of securities that are subject to restrictions on resale by such Client because they were acquired in a "private placement" transaction or because such Client is deemed to be an affiliate of the issuer of such securities. Generally, a Client will be able to sell such securities only under Rule 144 under the Securities Act, which permits limited sales under specified conditions, or pursuant to a registration statement under the Securities Act. When restricted securities are sold to the public, the Client may be deemed an "underwriter," or possibly a controlling person, with respect thereto for the purposes of the Securities Act and be subject to liability as such under that Act.

Indentures

A Sankaty Client may directly or indirectly control or be under common control with issuers of securities held by such Sankaty Client, which were issued under an indenture qualified under the Trust Indenture Act of 1939 (the "Trust Indenture Act"), especially where another Client is deemed to control the issuer of the securities. In such cases, the securities held by the Sankaty Client would be required by the Trust Indenture Act to be disregarded for the purposes of determining whether the holders of the required principal amount of such issuer's securities have concurred in certain directions or consents.

The following factors may alleviate, but will not eliminate, conflicts of interest among the Clients:

- A Sankaty Client will not make any investment unless Sankaty, and the General Partner

of the Sankaty Client (if applicable), believes that such investment is an appropriate investment considered solely from the viewpoint of the Sankaty Client (and investors in the Sankaty Client, if applicable); and;

- The advisory board of Sankaty Clients and other Clients, whose members are not affiliated with the general partner of the other Clients, play an important role in resolving conflicts of interest by approving or disapproving the appropriateness of decisions that involve significant conflicts of interest referred to it by the appropriate general partner of the other Clients and;
- Where Sankaty or one or more of the Affiliate Advisers deems appropriate in its sole discretion, unaffiliated third parties may be used to help resolve conflicts such as the use of an investment banker to opine as to the fairness of a purchase or sale price. In addition, the willingness of a third party to make an investment on the same terms as a Sankaty Client or other Client would demonstrate the fairness of the transaction to such Sankaty Client or other Client.

Sankaty Clients in an Advisory Role

Certain members of Sankaty Clients' advisory boards are, or in the future may be, officers or directors of, or otherwise affiliated with Sankaty Clients or other Clients. The General Partner and the general partners of the other Clients may from time to time utilize services of Sankaty Clients and their affiliates on an arm's length basis, as they deem appropriate.

Investment Advisory Board

The Sankaty Clients may establish an Advisory Board. Members of the Advisory Board (the "AB Members") may have direct or indirect interests in the activities of Sankaty and its affiliates or in investments and instruments, in some cases similar to those in which the Investment Advisor seeks to invest on behalf of the Sankaty Clients. An AB Member may be under no obligation to act in the best interests of the Sankaty Clients as a whole. This may result in potential conflicts of interest. In addition, AB Members may receive information regarding the proposed investment activities of the Sankaty Clients that is not generally available to the public or other Limited Partners. There will be no obligation on the part of any AB Member to make available for use by the Sankaty Clients any information or strategies known to or developed by it and, in certain cases, they may be prohibited from doing so.

Consent by the Advisory Board to any matter determined by the Investment Advisor to require the consent of the Sankaty Clients under the Advisers Act, or to any other matter presented to the Advisory Board by the Investment Advisor for consent, shall be deemed to constitute the consent of the Sankaty Clients. Each Limited Partner is deemed to have consented to the delegation to the Advisory Board of any such consent otherwise required of the Sankaty Clients. Consent of members of the Advisory Board may be deemed to be given in a particular case if the members do not expressly object to or disapprove a transaction for which Advisory Board consent is being sought.

Other Conflicts of Interest

Legal Counsel

The Clients will generally engage common legal counsel and other advisors to represent all of the Clients in a particular transaction, including a transaction in which the Clients have conflicting interests because they are investing in different securities of a single portfolio company. In the event of a significant dispute or divergence of interest between a Sankaty Client and other Clients, such as in a work-out or other distressed situation, separate representation may become desirable, in which case Sankaty and the other Affiliate Advisors may hire separate counsel in their sole discretion, and in litigation and other circumstances, separate representation may be required. Partners of the law firms engaged to represent the Clients may be investors in the Clients, and may also represent one or more portfolio companies or limited partners of the Clients.

the Sankaty Partnerships may provide for the right to receive certain additional information not available to other investors. Additionally, Sankaty may establish separate accounts with portfolios significantly similar to those of one or more Sankaty Funds. Consequently, the relevant Separate Account Client may have access to information about such portfolio holdings before investors in such Sankaty Funds.

Certain members of each Sankaty Fund's advisory board are, or in the future may be, officers or directors of, or otherwise affiliated with, limited partners of or investors in the Clients. The General Partner of a Sankaty Partnership and the General Partners of other Clients (if applicable) may from time to time utilize the services of Separate Account Clients or limited partners of or investors in the Clients and their affiliates on an arm's length basis, as they deem appropriate.

One or more Sankaty Clients or other Clients may hold "plan assets" subject to ERISA. With respect to those plan assets, if any, Bain Capital and certain affiliates may be classified as "fiduciaries" under ERISA. ERISA imposes certain general and specific responsibilities and restrictions on fiduciaries with respect to plan assets. As a result, a Sankaty Client may be restricted from entering into certain transactions if the investment would violate ERISA with respect to the Sankaty Client or such other Clients, or may be obligated to take certain actions or refrain from taking certain actions in order to avoid a violation of ERISA with respect to the Sankaty Client or such other Clients.

Different conflicts may exist with respect to investments in different Sankaty Funds and Separate Account Clients.

Please contact the Sankaty Compliance Department with any additional questions or concerns.

Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

Sankaty has adopted a written Code of Ethics policy for its employees. The policy describes employees standard of conduct and fiduciary duties and limits personal trading by employees and their immediate family/household members in a wide range of securities, including common and preferred stock, debt instruments, securities that are convertible or exchangeable for equity or debt securities, and derivative instruments. Employees must report every account that they or their immediate family/household member use trading securities covered by the policy and, if they directly or indirectly influence or control trading in the account, they must generally pre-clear

securities transactions covered by the policy and have copies of trade confirmations and periodic account statements sent by their broker to the compliance department. Controlled trading by employees and their immediate family/household members is prohibited in a wide range of securities that appear on restricted lists and confidential watch lists, and the additional steps are taken to ensure that employees and their immediate family/household members are not permitted to trade for their personal account in securities selected for the Sankaty Clients.

A detailed summary of Sankaty's Code of Ethics is available to limited partners and prospective limited partners of a Sankaty Fund during the investment due diligence process, a copy of which may be obtained by Sankaty's Compliance Department. Existing Sankaty Clients may obtain a copy of the Code of Ethics upon written request to: Sankaty Advisors, LLC, John Hancock Tower, 200 Clarendon Street, Boston, MA 02116. Attn: Compliance Department.

Related Person Investment

For further detail regarding circumstances in which Sankaty or a related person (a) recommends to clients, or buys or sells for client accounts, securities in which Sankaty or a related person has a material financial interest, (b) invests in the same securities that Sankaty or a related person recommends to clients, or (c) recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that Sankaty or a related person buys or sells the same securities for Sankaty's own (or the related person's own) account, as well as related conflicts of interest, please see "Code of Ethics" and Item 10 above.

Item 12. Brokerage Practices

In choosing broker-dealers for execution of securities transactions, Sankaty, or a related person of Sankaty, considers various relevant factors, including without limitation, pricing terms offered by the broker-dealer, the ability of the broker-dealer to deliver prompt and reliable execution, the size and type of the transactions, the nature and character of the market for the securities, operational efficiency with which transactions are effected, the broker-dealer firm's financial stability, confidentiality, back office stability, trading desk capacities, referrals, custody, settlement, familiarity with derivative securities strategies and the overall value and quality of the services offered by the broker-dealer firm.

Sankaty receives research, statistical and quotation services, data, information and other services and materials that assist Sankaty in the performance of its investment advisory responsibilities from broker-dealer firms that execute transactions for Sankaty Clients. Where such services are provided, Sankaty has agreed to compensate such broker-dealer or third party in either "hard" dollars (directly paid by Sankaty, although certain Advisory Agreements and Sub-Advisory Agreements permit some or all of such costs to be borne by the relevant Sankaty Client), "soft dollars" (commission generated) or some combination of the two. A broker-dealer providing such research services may receive a commission that is in excess of the amount of commission another broker-dealer would have received for effecting that transaction provided Sankaty determines in good faith that such commission was reasonable in relation to the value of the research and brokerage services provided by the broker-dealer. Any such research service may be broadly useful and of value to Sankaty in rendering investment advice to all or a significant portion of the Sankaty Clients, or may be relevant and useful for the management of one Sankaty Client's account or only a few Sankaty Clients' accounts, regardless of whether such account or accounts paid commissions to the broker-dealer through which the research service was

provided. Sankaty will only make securities transactions that it in good faith believes are in the best interest of the Sankaty Client. A conflict of interest exists when a broker-dealer provides such research services, however, as Sankaty will have an incentive to favor such broker-dealer over others that may charge lower commissions. Sankaty will also consider broker-dealers commission rates or spreads as compared to other market participants when determining the reasonableness of commission rates and spreads received by a broker dealer. Sankaty may aggregate trades pursuant to formal written procedures, which generally provide that such allocation is made on a pro rata basis among eligible Sankaty Clients. Certain exceptions may, however, be made in such allocation provided that such exceptions are to ensure that accounts are treated in a fair and equitable manner, taking into account each Sankaty client's best interests and to prevent any favoring of or discriminating against any Sankaty Client or group of Sankaty Clients, and that such allocation is consistent with Sankaty's fiduciary duties, its duty of best execution and on contractual obligations. For additional information regarding the allocation of investments among Sankaty Clients and Clients of the non-Sankaty Affiliated Advisers, please see Item 10 above.

A Separate Account Client may request or direct that Sankaty place transactions for its separate account with one or more specified broker-dealers ("Directed Brokerage"). Sankaty will accept Directed Brokerage arrangements only if certain conditions are satisfied including, that the Separate Account Client's directions are furnished in writing and that Sankaty has informed the Separate Account Client in writing that the use of directed brokerage arrangements may deprive the Separate Account Client of benefits that might otherwise be obtained by aggregating the Separate Account Client's order with orders for other Sankaty Clients and may cause the Separate Account Client to pay a higher commission rate or to receive less favorable execution than if Sankaty had discretion to select the broker or to negotiate the commission rate.

Item 13. Review of Accounts

Oversight and Monitoring

Sankaty continually reviews and analyzes its existing positions to attempt to identify issues early on and to take action where necessary. Sankaty's large investment team and industry-based organization is structured to produce in-depth credit analysis and allow for rapid response to developing situations. The industry teams and the credit committee then review each investment in a formal setting periodically. Each industry analyst updates buy/sell recommendations on a periodic basis and all credit work is shared throughout Sankaty. The industry teams also normally produce detailed investment reviews and financial models on every investment on a periodic basis.

The portfolio of investments of each Sankaty Client is reviewed by a team of investment professionals. The team generally includes Managing Directors and other investment professionals of Sankaty.

Reporting

Investors in the Sankaty Funds other than the CLOs typically receive, among other things, a copy of audited financial statements of the relevant Sankaty Fund within 120 days after the fiscal year end of such Sankaty Fund. Sankaty and the General Partner of a Sankaty Fund may from time to

time, in their sole discretion, provide additional information relating to such Sankaty Fund to one or more limited partners of such Sankaty Funds as it deems appropriate.

Investors in the CLOs typically receive, from the relevant trustee and among other things, quarterly reports detailing the aggregate principal balance of such CLO's portfolio of assets and the interest and other proceeds received by such CLO from such assets and available for distribution to investors, the aggregate outstanding amount of such CLO's outstanding debt and details regarding certain expenses incurred by such CLO.

Investors in Sankaty Funds will receive regular reporting updates through quarterly letters, investor meetings and other materials provided on the investor website.

Separate Account Clients may negotiate reporting requirements specific to their account. In the event of individually negotiated terms for Separate Accounts Clients, Sankaty will provide the reporting mutually agreed to by the parties as evidenced in their Advisory Agreement.

Item 14. Client Referrals and Other Compensation

For details regarding economic benefits provided to Sankaty by non-clients, including a description of related conflicts of interest, please see Item 10 above. In addition, Sankaty and its related persons may, in certain instances, receive discounts on products and services provided by portfolio companies.

Item 15. Custody

Limited partners of certain Sankaty Partnerships receive account statements directly from a qualified custodian. In other instances, Sankaty, in addition to the account statements sent by a qualified custodian, provides account statements directly to the limited partners of the Sankaty Partnerships. When doing so, Sankaty includes a statement that urges such limited partners to compare the account statements sent by Sankaty with those they receive from the qualified custodian.

Item 16. Investment Discretion

Sankaty provides investment advisory services to each of the Sankaty Partnerships pursuant to the Advisory Agreements. Investment advice is provided by Sankaty directly to the Sankaty Partnerships, subject to the direction and control of the affiliated General Partner of such Sankaty Partnership. Any restrictions on investments in certain types of securities are established by the General Partner of the applicable Sankaty Partnership, and set forth in the documentation received by each limited partner prior to investment in such Sankaty Partnership.

Sankaty provides investment advisory services to each Separate Account Client's separate account in accordance with the terms and conditions of the Advisory Agreement. The terms of these documents are generally established at the time of the formation of the applicable separate account and are the result of negotiations with the applicable Separate Account Client.

Sankaty provides investment advisory services to each CLO in accordance with the terms and conditions of such Advisory Agreement or Sub-Advisory Agreement, as applicable, and other related documents of each such CLO. The terms of the Sub-Advisory Agreements, including any restrictions on activities, were established at the time that Sankaty began providing investment

advisory services to the Sub-Advisory Funds. The terms of the Advisory Agreements and other related documents of each CLO that is not a Sub-Advisory Fund were generally established at the time of the formation of the applicable CLO and are the result of negotiations with certain potential investors in the applicable CLO.

Item 17. Voting Client Securities

Sankaty intends to vote proxies or similar corporate actions in accordance with the best interests of the applicable Sankaty Client, taking into account such factors as it deems relevant in its sole discretion. Upon receipt of a proxy request, Sankaty's operations department contacts the senior investment professional responsible for the issuer. The senior investment professional reviews the information, determines what is in the best interests of the Sankaty Client and ensures the vote is completed in a timely manner.

Sankaty's proxy voting policy is designed to ensure that if a material conflict of interest is identified in connection with a particular proxy vote, that the vote is not improperly influenced by the conflict. Conflicts of interest may arise from time to time in relation to proxy voting requirements. Sankaty shall monitor all proxies for any potential conflicts of interest. If a material conflict of interest arises, Sankaty will determine what is in the best interests of the relevant Sankaty Client and may take appropriate steps to eliminate any such conflict.

A detailed summary of Sankaty's proxy voting policies and procedures are available to limited partners and prospective limited partners of a Sankaty Fund during the investment due diligence process, a copy of which may be obtained by Sankaty's Compliance Department.

Existing Sankaty Clients may obtain copies of relevant proxy logs, identifying how proxies were voted in connection with a Sankaty Client, and copies of proxy voting policies and procedures upon written request to: Sankaty Advisors, LLC, John Hancock Tower, 200 Clarendon Street, Boston, MA 02116. Attn: Compliance Department.

Item 18. Financial Information

Item 18 is not applicable to Sankaty.

Item 19. Requirements for State-Registered Advisers

Item 19 is not applicable to Sankaty.