

Item 1. Cover Page

Sankaty Advisors, LP

200 Clarendon Street
Boston, MA 02116

www.sankaty.com

Part 2A of Form ADV: Firm Brochure
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This brochure provides information about the qualifications and business practices of Sankaty Advisors, LP. 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, LP 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

Additional disclosures are included in Item 8: Methods of Analysis, Investment Strategies and Risk of Loss and Item 10: Other Financial Industry Activities and Affiliations.

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Item 4. Advisory Business

Sankaty Advisors, LP (“Sankaty”), a Delaware limited partnership wholly owned by Bain Capital, LP (“Bain Capital”), provides investment advisory services to pooled investment vehicles and single limited partner partnerships 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” and such investment vehicles and partnerships are referred to as “Sankaty Partnerships”). Sankaty also provides collateral management services to entities structured as collateralized loan obligations (“CLOs”) and investment management services to clients in separately managed accounts (“Separate Account Clients”), which may be structured as single LP partnerships or in other forms. Additionally, Sankaty provides sub-advisory services to certain CLOs (“Sub-Advisory Funds”) and registered investment companies (“1940 Act Funds”).¹ The Sankaty Partnerships, the Sub-Advisory Funds, the CLOs and the 1940 Act Funds are collectively referred to as “Sankaty Funds.” The Sankaty Funds and Separate Account Clients are referred to collectively as “Sankaty Clients.”

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/multi sector credit funds; middle market lending; and credit opportunities funds. As the investment manager, 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 generally uses fundamental credit analysis to identify attractive investment opportunities and seeks strong 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 partnerships. Sankaty Clients use leverage directly and/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 collateral 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 Partnership, subject to the direction and control of the affiliated General Partner of the Sankaty Partnership and not individually to the investors in the Sankaty Partnerships.

The terms of the advisory services to be provided to a Sankaty Fund (except for the Sub-Advisory Funds and the 1940 Act Funds), including any restrictions on investments in certain types

¹ The 1940 Act Funds carry different regulatory obligations and restrictions. These restrictions may not apply to other Sankaty Clients. Sankaty may in the future directly advise 1940 Act Funds, including Business Development Companies.

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 or a 1940 Act 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 or 1940 Act Fund and are set forth in the Sub-Advisory Agreement for such Sub-Advisory Fund or 1940 Act Fund. 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 also provides consulting services to its subsidiary, Sankaty Advisors, Ltd., in connection with Sankaty Advisors, Ltd.'s role as collateral manager to certain CLOs. In addition, in certain limited circumstances, Sankaty acts as agent for such facility. Sankaty also indirectly provides portfolio management services to Sankaty Advisors Europe, Ltd., in connection with Sankaty Advisors Europe, Ltd. role as an Alternative Investment Fund Manager. In addition, Sankaty provides certain resources and services to Sankaty Advisors (Australia), Pty. Ltd., registered with the Australian Securities and Investments Commission, and to its subsidiaries in Hong Kong and Dublin. Sankaty expects to provide certain resources and/or services to Sankaty Capital Advisors, LP, a SEC registered investment adviser, in connection with Sankaty Capital Advisors, LP's management of a business development company.

Sankaty has been in business since 1997. Sankaty is located in Boston, New York, Chicago, London, Melbourne, Dublin, and Hong Kong. Sankaty operates in (a) London through its subsidiaries Sankaty Advisor, Ltd. and Sankaty Advisors Europe, Ltd., (b) Melbourne directly and through its subsidiary Sankaty Advisors (Australia), Pty. Ltd., (c) Dublin through its subsidiary Broadhaven Credit Partners, Limited, and (d) Hong Kong through its subsidiary Sankaty Advisors (Asia), LLC. As of January 1, 2016, Sankaty manages approximately \$30,121,000,000 of client assets, all of which is managed on a discretionary basis.

Item 5. Fees and Compensation

As compensation for investment advisory services rendered to the Sankaty Clients, Sankaty generally receives an advisory fee (each, an "Advisory Fee"). Advisory Fees billed to and received from Sankaty Clients vary client by client and are generally payable quarterly in advance, quarterly in arrears, semi-annually in arrears, or a combination thereof. In respect of the 1940 Act Funds, Sankaty receives sub-advisory fees payable by the relevant 1940 Act Fund's investment adviser pursuant to a sub-advisory agreement between Sankaty and each such investment adviser. Such fees are generally paid quarterly in arrears. Advisory fees paid by a Sankaty Fund are indirectly borne by the investors in such Sankaty Fund. The fee structures described above are modified from time to time.

The precise amount of, and the manner and calculation of, the management fee for each Sankaty Fund (except for the 1940 Act Funds) are established by Sankaty and are set forth in such Sankaty Fund's Advisory Agreement and/or other documentation received by each investor prior to investment in such Sankaty Fund. Advisory Fees billed to Separate Account Clients are individually negotiated, and the timing of the payment of such Advisory Fees is generally quarterly in arrears. Upon termination of an Advisory Agreement, appropriate treatment, including, where applicable, returning prepaid Advisory Fees on a prorated basis, will be given to Advisory Fees collected in advance. Advisory Fees sometimes differ from one Sankaty Fund or Separate Account Client to another, as well as among investors in the same Sankaty Fund.

Each Sankaty Fund (except for the 1940 Act Funds) bears its own expenses, including taxes, all expenses relating to identifying, evaluating, investigating, valuing, structuring, monitoring, holding and servicing (including any such expenses incurred in connection with services performed by the internal staff of Sankaty, its affiliates, and third party providers), tracking, hedging, harvesting, selling (or potentially selling) or purchasing (or potentially purchasing) investments and potential investments (whether or not completed), brokerage commissions, custody fees, interest expenses, finders' fees, insurance premiums (including its pro rata share of expenses with respect to policies whose costs and benefits are expected to be shared with other funds sponsored by Sankaty), legal expenses (including any such expenses incurred in connection with legal services performed by the internal Sankaty staff or its affiliates and outside counsel), research expenses (*e.g.*, news and quotation subscriptions, market research and travel expenses in connection with evaluating, making and monitoring investments), other information technology expenses, valuation, accounting, audit and tax preparation expenses, rating agency expenses, expenses of the Advisory Board (as defined below), and other expenses associated with the operation of such Sankaty Fund. Separate Account Clients bear similar expenses, depending on the terms of the Advisory Agreement negotiated with the applicable Separate Account Client. The 1940 Act Funds bear expenses pursuant to their governing documents and may also bear, among other expenses, transfer agency and distribution related expenses.

Additionally, please see Item 6 below regarding "incentive fees" that Sankaty Clients pay.

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.

Other Fees

Sankaty and its subsidiaries from time to time perform advisory and other services ("Other Services") for actual or prospective portfolio companies or other deal related investment vehicles. As part of providing these services, Sankaty and its subsidiaries are generally entitled to receive compensation from (and expenses reimbursed by) a number of entities, which include entities in which the Sankaty Clients have interests ("Transaction Fees"). In addition, Sankaty, its subsidiaries, and/or personnel from time to time sit on board of directors for actual or prospective portfolio companies and are generally entitled to compensation for doing so (with Transactions Fees, the "Other Fees"). In addition to Transaction Fees and Other Fees, certain Sankaty Clients may invest

in funds or structured products organized by Sankaty or its affiliates for which Sankaty or its affiliates receive management fees or carried interest. In certain instances as set forth in the applicable organizational documents and/or Advisory Agreement, such Sankaty Clients do not pay management fees on the capital invested in such funds or structured products directly but indirectly bear the management fees or carried interest paid by such funds or structured products.

Additionally, portfolio companies generally reimburse Sankaty for expenses, including, without limitation, travel expenses, and meals and entertainment expenses incurred by Sankaty in connection with its performance of services for such portfolio company. Such reimbursements are generally not included in the definition of “Transaction Fees” under the terms of the applicable governing documents.

Such Other Fees are in addition to the Advisory Fees paid by Sankaty Clients. Sankaty typically seeks to have such fees paid directly to the relevant Sankaty Clients or, if that is not possible, reduce future Advisory Fees in connection with the receipt of Other Fees in each case as set forth in the applicable organizational documents and Advisory Agreement with each Client. To the extent any such credit would reduce the management fee for a given quarter below zero, such credit will be carried forward for future application. Any such reduction of a Sankaty Fund’s management fee or payment directly to the Sankaty Client will be based on such Sankaty Client’s proportionate interest in the investment giving rise to such fee. Waived Advisory Fees are generally not subject to various offsets or the reductions described above. Due to waived Advisory Fees and/or the timing of receipt of compensation subject to offsets, Sankaty Client investors will generally not receive the full benefit of reductions or offsets.

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

Some, but not all, Sankaty Clients pay carried interest and other similar incentive fee arrangements (“Incentive Fees”). Certain investors in the Sankaty Funds incur lower or no Incentive Fees. The payment by some, but not all, Sankaty Clients of Incentive Fees or the payment of Incentive Fees at varying rates (including varying effective rates based on the past performance of a Sankaty Client) creates an incentive for Sankaty to disproportionately allocate time, services or functions to Sankaty Clients paying Incentive Fees or Sankaty Clients paying Incentive Fees at a higher rate, or allocate investment opportunities to such Sankaty Clients. Please see Item 10 below regarding allocation for additional information relating to how conflicts of interests are generally addressed by Sankaty. Incentive Fees often differ from one Sankaty Fund to another, as well as among investors in the same Sankaty Fund.

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 investment advisory and investment management services to various entities that are Separate Account Clients.

Except for the 1940 Act Funds, 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 (except for the 1940 Act 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.

Minimum investment commitments are established for limited partners in the Sankaty Funds (except for the 1940 Act Funds), which are no less than the legal eligibility requirements. Sankaty and, in the case of each Sankaty Partnership, the General Partner of such Sankaty Partnership, in its sole discretion, have in limited circumstances permitted 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, it seeks to establish separate accounts with a \$250,000,000 base, although Sankaty, in its sole discretion, has in the past permitted, and has the discretion to permit in the future, investments that are less than such amount.

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 generally through three 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 private equity sponsors, fundless sponsors, law firms, restructuring advisers, commercial and investment banks, Sankaty affiliates, and ventures with other investment advisers; and third, through Sankaty's 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 research firms, banks and rating agencies.

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 is generally 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 often 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 typically hires third party firms to conduct accounting, tax, valuation, legal, environmental and other diligence, as well as perform background checks on principals or management teams where appropriate.

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 loans and debt and equity securities involves a substantial degree of risk. A Sankaty Client is in a position to 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

Competitive Environment

The business of investing in assets meeting Sankaty Clients' investment objectives is highly competitive. Competition for investment opportunities includes a growing number of non-traditional participants, such as hedge funds, private and public mezzanine and subordinated debt funds, including business development companies, and other private investors, as well as more traditional lending institutions and competitors. Some of these competitors may have access to greater amounts of capital and to capital that may be committed for longer periods of time or may have different return thresholds than Sankaty Clients, and thus these competitors may have advantages not shared by Sankaty Clients. Increased competition for, or a diminishment in the available supply of, investments suitable for Sankaty Clients could result in lower returns on such investments. In addition, issuers may prefer to take advantage of favorable high yield or second-lien markets and issue subordinated debt in those markets, which could result in fewer investment opportunities for Sankaty Clients. Moreover, the identification of attractive investment opportunities is difficult and involves a high degree of uncertainty. Sankaty Clients may incur significant expenses in connection with identifying investment opportunities and investigating other potential investments which are ultimately not consummated, including expenses relating to due diligence, transportation, legal expenses and the fees of other third party advisors.

Concentration of Investments

Except as set forth in the applicable Advisory Agreement, Sankaty Clients are generally not limited in the amount of capital that may be committed to any one investment, industry or sector, geography, or similar category or asset class. As such, Sankaty Client assets may not be diversified. Any such non-diversification would increase the risk of loss to a Sankaty Client if there was a

decline in the market value of any security, category or asset class in which a Sankaty Client had invested a large percentage of its assets. If a large portion of the assets of a Sankaty Client is held in cash or similarly liquid form, such Sankaty Client's performance would likely be adversely affected. Investment in a non-diversified fund will generally entail greater risks than investment in a "diversified" fund.

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, such 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 a 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 in a Sankaty Partnership 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.

Third-Party Involvement

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

Expedited Investment Decisions

Investment analyses and decisions by Sankaty will frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In these cases, the information available to Sankaty at the time of making an investment decision may be limited. Therefore, no assurance can be given that Sankaty will have knowledge of all circumstances that could adversely affect an investment. In addition, Sankaty expects to rely upon independent consultants and other sources in connection with its evaluation of proposed investments, and no assurance can be given as to the accuracy or completeness of the information provided by such independent consultants or

other sources, or as to Sankaty Clients' right of recourse against them in the event errors or omissions do occur.

Reinvestment Risk

Certain Sankaty Funds will generally reinvest without limitation any proceeds from investments until the fourth anniversary of such Sankaty Fund's initial closing date occurs. The objective of reinvesting such capital contributions is to provide ongoing additional capital to potentially increase the total return from the investments to the partners. However, if such proceeds are reinvested, the limited partners' capital will continue to be subject to the risk of loss for a longer period of time. If reinvested proceeds are lost, such loss would offset at least a portion of any gains that may have been realized from prior investments of Sankaty Funds, and it is possible that any such loss could exceed any such prior gains, thereby resulting in a possible loss of at least a portion of the limited partners' investments in the Sankaty Funds.

Follow-On Investments

Following its initial investment in a portfolio company, Sankaty Clients may decide to provide additional funds to such portfolio company. There is no assurance that Sankaty Clients will make follow-on investments or that Sankaty Clients will have sufficient funds to make all or any of such investments. Any decision by Sankaty Clients not to make follow-on investments or its inability to make such investments may have a substantial adverse effect on a portfolio company in need of such an investment. Additionally, a failure to make such investments may result in a lost opportunity for Sankaty Clients to increase its participation in a successful portfolio company or the dilution of Sankaty Clients' ownership in a portfolio company if a third party invests in the portfolio company.

Leverage

Sankaty has in the past and may in the future cause certain Sankaty Clients to utilize leverage directly and indirectly. The use of leverage will increase the volatility of the investments in the Sankaty Client portfolio. 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. Therefore, the effect of leverage often will 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 have in the past and may in the future enter into one or more prime brokerage agreements. A Sankaty Client utilizes leverage to the extent under these agreements that the Sankaty Client engages 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. Sankaty Clients also use leverage by participating in total rate of return swaps.

Repayment of Certain Distributions

The capital contributed by any Sankaty Fund investor is susceptible to risk of loss as a result of any liability of the applicable Sankaty Fund. Sankaty Fund investors may be required to return distributions previously received under certain circumstances, and may be liable under applicable fraudulent conveyance, bankruptcy or other insolvency laws to return a distribution. Finally, Sankaty Fund investors may be required to reimburse the applicable Sankaty Fund for amounts that are required to be withheld by such Sankaty Fund for tax purposes. If the feeder fund were to have such a payment or repayment obligation in its capacity as a Sankaty Fund investor it would in turn impose a corresponding payment or repayment obligation on the feeder fund investors.

Valuation

Sankaty values the investments owned by Sankaty Clients. Sankaty will exercise its discretion in seeking to value these investments in good faith. There is no actively traded market for some of the securities or investment products owned by Sankaty Clients. When estimating fair value, Sankaty will apply a methodology based on its best judgment that is appropriate in light of the nature, facts and circumstance of the investments. The process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties and the resulting values may differ from values that would have been determined had an active market existed for such securities and may differ from the prices at which such securities are ultimately be sold. Third-party pricing information, including service providers, may not be available or used regarding certain assets. The exercise of discretion in valuation by Sankaty gives rise to conflicts of interest, as the performance allocation in certain Sankaty Clients is calculated based, in part, on these valuations and such valuations affect performance calculations. In addition, Sankaty may or may not value the investments consistently with how the same or similar investments are valued by other Bain Capital advisors.

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. Although Sankaty's personnel 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 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 will generally be substantially impacted by the nature and timing of the market.

Risks of Investments

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 likely will affect its credit risk. Credit risk typically changes over the life of an instrument and securities which are rated by rating agencies are often reviewed and are subject to downgrade. “Interest rate risk” refers to the risks associated with market changes in interest rates. Factors that generally 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 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 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, if Sankaty does not manage this risk effectively, then a Sankaty Client’s performance could be adversely affected. 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 are often 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 invest in small and/or less well-established companies. While smaller companies generally 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 generally contributes to illiquidity, which, in turn would 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 often invest are typically adversely affected by deteriorations in the financial markets and economic conditions throughout the world, some of which magnify the risks described herein and 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 will 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. It would be expected that such declines will 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.

Operating and Financial Risks of Investments

Companies in which Sankaty Clients invest often 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 at times will operate at a loss or have significant variations in operating results, at times will require substantial additional capital to support their operations or to maintain their competitive position or at times will have a weak financial condition or be experiencing financial distress.

Portfolio companies often 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.

Risk of Minority Positions

The Sankaty Clients may hold minority positions in investments. While the Sankaty Clients may seek to get the appropriate governance and exit rights at the time of investment, there may be instances in which the Sankaty Clients may not be able to exercise control over such investments. In addition, in certain situations, including where the businesses are in bankruptcy or undergoing a reorganization, minority investors may be subject to the decisions taken by majority investors, and the outcome of a Sankaty Client's investment may depend on such majority controlled decisions, which decisions may not be consistent with a Sankaty Client's objectives.

Risks Regarding Dispositions of Portfolio Companies

In connection with the disposition of an investment in a portfolio company, the Sankaty Clients may be required to make representations and warranties about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. The Sankaty

Clients may also be required to indemnify (or to otherwise participate in the indemnification of) the purchasers of an investment to the extent that any of these representations and warranties turns out to be inaccurate or misleading. These arrangements may result in liabilities for the Sankaty Clients, depending upon recontribution obligations owed to the portfolio company. Liabilities incurred by the investment vehicles in connection with the disposition of interests in portfolio companies may cause the Sankaty to recall distributions made to Sankaty Clients.

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 particular, major market upsets (including those caused by war, terrorism, or other world events), general market cessations, changes in interest rates, availability of credit, inflation rates, political and economic uncertainty, changes in laws (including laws relating to taxation of a Sankaty Client's investments), trade barriers, currency exchange rates and controls, government debt burdens and monetary and deficit policies, the relative volatility between investments or equity derivative risk, the participation by other investors in the financial markets, macroeconomic dislocations and revaluations, the effectiveness of a Sankaty Client's hedging and risk management strategies and extreme market conditions can affect the value of a Sankaty Client's investments. These factors may affect the level and volatility of investment prices and the liquidity of a Sankaty Client's investments. Volatility or illiquidity could impair a Sankaty Client's profitability or result in losses.

General fluctuations in the market prices of securities and economic conditions generally, particularly of the type experienced since 2008, may reduce the availability of attractive investment opportunities for the Sankaty Clients and may affect the Sankaty Clients' ability to make investments and the value of the investments held by the Sankaty Clients. Instability in the securities markets and economic conditions generally may also increase the risks inherent in the Sankaty Clients' investments. The public securities markets have seen increased volatility and the ability of companies to obtain financing for ongoing operations or expansions may be severely hampered by the tightening of the credit markets and the ongoing financial turmoil. It is unclear what the repercussions of this market turmoil may be. Moreover, it remains unknown whether governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) will have a positive or negative effect on market conditions. There can be no assurance that the market will, in the future, become more liquid than it is at present and it may well continue to be volatile for the foreseeable future. The ability to realize investments depends on political, market and economic conditions at the time of such realizations. Continued or renewed volatility in the financial sector may have an adverse material effect on the ability of the Sankaty Clients to buy, sell and partially dispose of their investments. The Sankaty Clients may be adversely affected to the extent that they seek to dispose of any of their investments into an illiquid or volatile market, and a Sankaty Client may find itself unable to dispose of investments at prices that Sankaty believes reflect the fair value of such investments. The duration and ultimate effect of current market conditions and whether such conditions may worsen cannot be predicted.

In addition, the lack of an established, liquid secondary market for some of the Sankaty Clients' investments sometimes have an adverse effect on the market value of such investments and on the Sankaty Clients' ability to dispose of them. Additionally, if the Sankaty Clients' investments are subject to certain transfer restrictions this will contribute to illiquidity. Finally, assets of Sankaty Clients that are typically traded in a liquid market will likely become more 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. Illiquidity adversely affects 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 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, there is a possibility that a Sankaty Client will 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.

If Sankaty, from time to time, possesses material, non-public information about a borrower or issuer or Sankaty is an affiliate of a borrower or an issuer, then such information or affiliation will limit the ability of the applicable Sankaty Client to buy and sell investments.

Third Party Litigation

In addition to litigation relating to the bankruptcy process as described below under "Item 8: Risks—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.

Investment in non-U.S. Issuers

Certain Sankaty Clients invest in the securities of non-U.S. issuers. On occasion, there is less information publicly available about a non-U.S. issuer than about a U.S. issuer, and non-U.S. issuers are generally 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 often differ substantially from that in the United States, which will often 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 some other developing countries have no bankruptcy laws enacted, adding further uncertainty to the process for reorganization.

Emerging Market Risks

The risks of investments in non-U.S. markets described above apply to an even greater extent to investments in emerging markets. The securities markets of emerging market countries are generally smaller, less developed, less liquid, and more volatile than the securities markets of the U.S. and other developed markets. Disclosure and regulatory standards in many respects are less stringent than in the U.S. and other developed markets. There also may be a lower level of monitoring and regulation of securities markets in emerging market countries and the activities of investors in such markets and enforcement of existing regulations may be inconsistent and subject to change without warning. In addition, custodial services and other costs relating to investments may be more expensive in emerging markets than in many developed markets, which could reduce a Sankaty Client's income from such securities. In many cases, governments of emerging market countries continue to exercise significant control over their economies, and government actions relative to the economy, as well as economic developments generally, may adversely affect the liquidity and price of securities, regardless of the issuer's financial condition. In addition, there is a heightened possibility of expropriation or confiscatory taxation, imposition of withholding taxes on interest or dividend payments, or other similar developments that could affect investments in those countries. There can be no assurance that adverse political changes will not cause the Sankaty Clients to suffer a loss of any or all of their investments.

Potential Early Redemption of Some Investments

Some of the terms of loans acquired or originated by a Sankaty Client will 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 typically happens 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 is often 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. On occasion, a Sankaty Client's inability to reinvest such proceeds will materially affect the performance of a Sankaty Client.

Limited Amortization Requirements

From time to time, Sankaty Clients will 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, will 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.

High Yield Debt

From time to time, Sankaty Clients will 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 is often 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 will 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, issuers of high yield debt are often 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 could include companies involved in bankruptcy or other reorganizations or liquidation proceedings. Certain of these securities will not be publicly traded, and in this circumstance, it will be difficult to obtain information as to the true condition of the issuers. Overall declines in the below investment-grade bond and other markets typically 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 will 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 also invest in equity securities issued by entities with unrated or below investment-grade debt.

High yield debt is also issued 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.

Financially Troubled Companies

From time to time, Sankaty Clients 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 will generally be limited or unavailable. In addition, securities of such companies are typically thinly traded and there will likely 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 Sankaty 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, certain Sankaty Clients invest in the securities of financially troubled companies that are non-U.S. issuers. Such non-U.S. issuers will likely be subject to bankruptcy and reorganization processes and proceedings that are not comparable to those in the United States and that sometimes will be less favorable to the rights of lenders.

On occasion, a Sankaty Client will make investments that become distressed due to factors outside the control of Sankaty. 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 is in a position to lose its entire investment, to be required to accept cash or securities with a value less than a Sankaty Client's original investment and/or to be required to accept payment over an extended period of time. Under these circumstances, the returns generated from a Sankaty Client's investments will likely not compensate the investors in the Sankaty Clients 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 will generally either have its claims subordinated, or disallowed, or 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 its investors is likely to 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, at times, require significant participation in business strategy or reorganization proceedings by Sankaty. 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.

Bank Loans

The investments of a Sankaty Client at times 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 at times make investments in stressed or distressed bank loans which are often less liquid than performing bank loans. Sankaty Clients 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 will 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.

Credit Default Swaps and Other Credit Derivatives

Sankaty Clients have in the past and may in the future 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 will at times be complete or partial, and at times will be for the life of the related asset or for a shorter period. Credit derivatives are sometimes 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 are sometimes 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 will generally 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 typically 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 there is a chance that Sankaty will 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.

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 are often 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 will generally 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 could 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

Sankaty Clients have in the past and may in the future invest in secured loans that are over-collateralized at the time of the investment, but such secured loans nonetheless may 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 will 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, there is a possibility that a Sankaty Client will 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.

Exposure to Originated Investments

From time to time, a Sankaty Client will 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 will likely 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.

Options

Sankaty has in the past and may in the future 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 does so on either a "covered" or an "uncovered" basis. Such options transactions are sometimes part of a hedging tactic (i.e., offsetting the risk involved in another securities position) or other times is 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 enters 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 are 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, together with other factors, often 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.

Equity Securities

Sankaty Clients expect to invest in equity securities. As with other investments that the Sankaty Clients make, the value of equity securities held by a Sankaty Client will generally 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 are typically 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.

Convertible Securities

Convertible securities are bonds, debentures, notes, preferred stocks or other securities that convert 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 typically 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 is generally 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.

Portfolio Purchases

The Sankaty Clients expect to invest in entire portfolios of assets sold by hedge funds, business development corporations, regional commercial banks, specialty finance companies and other types of financial firms. The performance of individual assets in such a portfolio will vary, and the return on Sankaty Clients' investments in an entire portfolio may not exceed the returns the Sankaty Clients would have received had they purchased some, but not all, of the assets contained in such portfolio.

Investments in Undervalued Assets

Sankaty Clients often 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.

On occasion, Sankaty Clients will 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, there is a possibility that a Sankaty Client will 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 could 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.

Investments in Technology Start-Up and Similar Companies

The Sankaty Clients may invest in technology start-up or similar companies. These businesses are often involved in new and often untested products, services and markets, such investments may be subject to additional risks common among technology start-up companies, including risks related to (i) increased litigation, and significant costs associated therewith (including, potentially, litigation involving intellectual property and privacy), (ii) significant regulatory scrutiny, (iii) technology error, viruses, hacking or other failure, (iv) market saturation and an inability to grow its user base, (v) competition, including by competitors that create new and improved technology, (vi) unfavorable media coverage, (vii) an inability to effectively manage the rapid growth of its organization, (viii) expansion into unfamiliar jurisdictions, (ix) an inability to generate meaningful revenue (despite a significant user base), and (x) an inability to continue to adapt to changes and

improve and upgrade technology.

Investments in the Energy Sector

The Sankaty Clients expect to make certain investments in and relating to the energy sector. The operations of energy companies are subject to many risks inherent in the transporting, processing, storing, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, coal, refined petroleum products or other hydrocarbons, or in the exploring, managing or producing of such commodities, including, without limitation: damage to pipelines, storage tanks or related equipment and surrounding properties caused by hurricanes, tornadoes, floods, fires and other natural disasters or by acts of terrorism, inadvertent damage from construction and farm equipment, leaks of natural gas, natural gas liquids, crude oil, refined petroleum products or other hydrocarbons, and fires and explosions. These risks could result in substantial losses due to personal injury or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage, and may result in the curtailment or suspension of their related operations, any and all of which could result in lower than expected returns to the Sankaty Clients. In addition, the energy sector has experienced significant volatility at times, which may occur in the future, and which could negatively affect the returns on any investment made by the Sankaty Clients in this sector.

Investments in the Industrial/Distribution Industries

The industrial and distribution industries the Sankaty Clients may invest in encounter competition in all areas of their businesses. Customers increasingly demand more technologically advanced and integrated products. To remain competitive, the Sankaty Clients may need to invest continuously in research and development, manufacturing, marketing, client service and support and distribution networks. In the event of technological advance and a significant shift in the character of the market's demand, or if certain products become technologically obsolete, the performance of the Sankaty Client's investment, may be materially adversely affected.

Investments in the Commodities Sector

The Sankaty Clients expect to make certain investments in and relating to the commodities sector. Commodities are assets that have tangible properties, such as oil, metals and agricultural products. Commodity prices can be extremely volatile and are influenced by many factors, including changes in overall market movements; real or perceived inflationary trends; commodity index volatility; changes in interest rates or currency exchange rates; population growth and changing demographics; nationalization, expropriation, or other confiscation; international regulatory, political, and economic developments (e.g., regime changes and changes in economic activity levels); government trade, fiscal, monetary, and exchange control programs and policies; developments affecting a particular industry or commodity, such as drought, flood, or other weather conditions, livestock disease, trade embargoes, competition from substitute products, transportation bottlenecks or shortages, fluctuations in supply and demand, and tariffs; and the inherent volatility of the marketplace. In addition, U.S. and non-U.S. governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. Actions of and changes in governments, and political and economic instability, in commodity-producing and -exporting countries may affect the production and marketing of commodities. In addition, commodity-related industries throughout the world are subject to greater political,

environmental, and other governmental regulation than many other industries. Changes in government policies and the need for regulatory approvals may adversely affect the products and services of companies in the commodities industries. For example, the exploration, development, and distribution of coal, oil, and gas in the United States are subject to significant federal and state regulation, which may affect rates of return on coal, oil, and gas and the kinds of services that the federal and state governments may offer to companies in those industries. In addition, compliance with environmental and other safety regulations has caused many companies in commodity-related industries to incur production delays and significant costs. Government regulation may also impede the development of new technologies. The effect of future regulations affecting commodity-related industries cannot be predicted.

Investments in Industries Related to Natural Resources

The Sankaty Clients expect to invest in assets related to the natural resources sector, and would be exposed to adverse developments, including adverse price movements, affecting issuers in the natural resources sector. In addition, the prices of securities issued by companies in the natural resources sector may be more volatile than those of securities of companies in other industries. Some of the commodities used as raw materials or produced by these companies are subject to broad price fluctuations as a result of industry wide supply and demand factors. Companies in the natural resources sector often have limited pricing power over supplies or for the products they sell, which can affect their profitability. Companies in the natural resources sector also may be subject to special risks associated with natural or man-made disasters. In addition, the natural resources sector can be especially affected by political and economic developments, government regulations including changes in tax law or interpretations of law, energy conservation, and the success of exploration projects. Specifically, the natural resource sector can be significantly affected by import controls, worldwide competition, changes in consumer sentiment and spending, and can be subject to liability for, among other things, environmental damage, depletion of resources, and mandated expenditures for safety and pollution control.

Investments in the Metals and Mining Industry

The Sankaty Clients expect to invest in assets related to the metals and mining industry. The profitability of companies in the metals and mining industry is related to, among other things, worldwide metal prices, and extraction and production costs. Worldwide metal prices may fluctuate substantially over short periods of time. In addition, metals and mining companies may be significantly affected by changes in global demand for certain metals, economic developments, energy conservation, exchange rates, the success of exploration projects, interest rates, economic conditions, tax treatment, government regulation and intervention, and world events in the regions that the companies to which a Fund has exposure operate (e.g., expropriation, nationalization, confiscation of assets and property or the imposition of restrictions on foreign investments and repatriation of capital, military coups, social unrest, violence and labor unrest). Metals and mining companies may also be subject to the effects of competitive pressures in the metals and mining industry.

Investments in the Shipping Industry

The Sankaty Clients expect to invest in maritime and maritime-related assets, and therefore may be subject to the risks posed by the shipping industry in general, including: the burdens of ownership of maritime and maritime-related assets; local, national and international economic and political conditions; developments in international trade and changes in seaborne and other transportation patterns; changes in the tourism and holiday travel market; the financial condition of charterers, pool operators, buyers and sellers of maritime-related assets; changes in interest rates and the availability of debt financing which may render the sale or refinancing of maritime and maritime-related assets difficult or impracticable; laws and regulations and fiscal and monetary policies; environmental issues, including accidents, contamination or pollution; changes in tax policies and rates; changes in energy and commodities prices; exposure to emerging markets and politically unstable regions and countries; embargoes and strikes; port and canal closures; cargo and property losses or damage; maritime disasters including collisions, groundings or capsizings or incidents relating to design failures of a vessel; natural disasters, weather patterns, storms, and climate changes; the risk of an explosion, fire or flooding; political unrest or the interference of government agencies or political bodies, armed conflicts and war; acts of piracy; terrorist events; and other factors which are beyond the reasonable control of the Sankaty Clients. The nature, timing and degree of changes in shipping industry conditions are unpredictable. In addition, maritime and maritime-related assets are subject to long-term cyclical trends that give rise to significant volatility in values in terms of charter rates, profitability and, consequently, vessel values. The time lag in the shipping industry between orders and deliveries heighten this cyclicality. Certain significant fixed expenditures associated with purchasing maritime and maritime-related assets (such as third-party borrowings, taxes and maintenance costs) may stay the same or increase even when circumstances cause a reduction in returns from maritime and maritime-related assets. In addition, because of the international nature of the shipping industry, the governing law or laws with respect to the interpretation of contracts and the enforcement of remedies may be uncertain or conflicting, making it difficult for an investor to enforce its rights.

Investments in the Media Industry

The Sankaty Clients expect to invest in media-related assets. Companies in the media industry may encounter distressed cash flows due to the need to commit substantial capital to meet increasing competition, particularly in formulating new products and services using new technology. Media companies are subject to risks that include cyclicalities of revenues and earnings, a potential decrease in the discretionary income of targeted individuals, changing consumer tastes and interests, competition in the industry and the potential for increased state and federal regulation. Advertising spending is an important source of revenue for media companies. During economic downturns, advertising spending typically decreases and, as a result, media companies tend to generate less revenue.

Investments in the Telecommunications Industry

The Sankaty Clients may make infrastructure-related investments in the telecommunications sector including sharing economy applications, vertical integration applications, and emerging internet services. Investment opportunities in the telecommunications sector are driven largely by consumer demand, technological advances, and improvements in data collection and storage. Changes in the

development and proliferation of new technologies, data transmission and/or consumer demand, as well as changes in the prevailing global economy, may adversely affect the Sankaty Client's ability to identify and consummate attractive infrastructure-related investments in the telecommunications sector.

Investments in Consumer-related Industries

Consumer-related industries are typically very competitive and are characterized by a crowded field of competitors. Although there may not be high barriers to entry, long-term market success is subject to a number of factors, many of which lie outside the control of the Sankaty Clients. Consumer spending may be disproportionately affected by adverse economic conditions, and consumer spending patterns in the emerging economies in which the Sankaty Clients intends to invest may be difficult to predict. In addition, investments may face competition from a number of other, more established market participants, including global companies with much greater financial, marketing, and other resources. In either case, the Sankaty Client's investment results may be affected in a materially adverse manner.

Investments in the Healthcare Industry

The biotechnology, genetic/genomic testing and cancer therapeutic fields are highly competitive. Tests and therapies that are developed are characterized by rapid technological change. Investment competitors include venture capital-funded biotechnology companies, public and private pharmaceutical companies, universities, and public and private research institutions. In recent years, there have been numerous advances in technologies relating to the diagnosis and treatment of various cancer types. A number of other companies have cancer therapies and drug candidates in various stages of pre-clinical or clinical development, some of which may be commercialized in the near future, and the success of other cancer-treating drugs may diminish the need and marketability for treatments that may be developed.

Investments in Mortgage-Related Assets

The Sankaty Clients may make certain investments in mortgage-related assets. Rising interest rates tend to extend the duration of mortgage-related securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, such investments may exhibit additional volatility. This is known as extension risk. In addition, mortgage-related securities are subject to prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce the returns of a Sankaty Client because the Sankaty Client will have to reinvest that money at the lower prevailing interest rates. This is known as contraction risk.

Over the past several years, events in the real estate and securitization markets, as well as the debt markets and the economy generally, have caused significant dislocations, illiquidity and volatility in the market for mortgage-backed securities, as well as in the wider global financial markets. Declining real estate values, coupled with diminished availability of leverage and/or refinancings for commercial and multifamily real estate has resulted in increased delinquencies and defaults on commercial and multifamily mortgage loans. In addition, the downturn in the general economy has affected the financial strength of many commercial and multifamily real estate tenants and has

resulted in increased rent delinquencies and increased vacancies. The default rate and price volatility of mortgage-backed securities may continue to increase as a result of delinquencies losses, lower recoveries on underlying mortgage pools and the other factors described, which in turn may materially and adversely affect the value of the a Sankaty Client's assets.

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 also occur on occasion 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 are 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.

Certain RMBS 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.

Certain RMBS are 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.

Certain RMBS are not 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.

Investments in Non-performing Loans

Sankaty Clients' investments are expected to include investments in non-performing and sub-performing loans which often involve workout negotiations, restructuring and the possibility of foreclosure. These processes are often lengthy and expensive. In addition, Sankaty Clients' investments will likely include securities and debt obligations of financially distressed issuers, including companies involved in bankruptcy or other reorganization and liquidation proceedings. As a result, Sankaty Clients' investments may be subject to additional bankruptcy related risks, and returns on such investments may not be realized for a considerable period of time.

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 rises. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase. Sankaty Clients 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.

Distressed Investments

Sankaty Clients are also generally 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 is typically 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 those investments will be subject to avoidance as a preference under certain circumstances.

DIP Loans

The investments of certain Sankaty Clients 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 will generally adversely and permanently affect the company. There is a chance that the company will 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 will likely 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, in some circumstances, possess priority over administrative expenses, this is not always the case, and when it is not the case, administrative expenses will typically 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 will likely 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."

Sankaty Clients 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 will likely be subject to avoidance as a preference under certain circumstances.

Structured Products

Sankaty has in the past and will in the future 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. Sankaty Clients may invest in other funds or structured products sponsored by Sankaty or other affiliates. Typically a Sankaty Client's interest in any such fund would be subject to the terms and conditions of such fund, including fees and carried interest, except to the extent the general partner of, or Sankaty or the affiliated adviser of, such fund has, in its sole discretion, waived all or a portion of such fees and carried interest with respect to such fund or structured product.

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.

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 will be subject to the prior repayment of different classes of senior debt that is "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 will 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 are in poor financial condition, experiencing poor operating results, having substantial capital needs or negative net worth or facing special competitive or product obsolescence problems, and sometimes 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, typically impairs 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. Some mezzanine debt securities are not publicly traded, and therefore it will be difficult to obtain information as to the true condition of the issuers. Finally, the market values of certain of this mezzanine debt reflect individual corporate developments.

Mezzanine debt investments will 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.

Risk Surrounding New Opportunities

Sankaty from time to time considers additional investment opportunities, including but not limited to, advising new Clients and/or advising different types of investment vehicles. In addition, Sankaty from time to time considers expanding into different geographic locations. The consideration of new investment opportunities and geographic expansion presents additional risk to investors with Sankaty.

Widening Risk

For reasons not necessarily attributable to any of the risks set forth herein, there is a possibility that the prices of the securities and other financial assets in which the Sankaty Clients invest will decline substantially. In particular, purchasing assets at what 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.

Exit Financing

Sankaty causes 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.

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, there is a strong possibility that a court will 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 often will 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 (sometimes 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.

Participation on Creditors' Committees

From time to time, Sankaty will participate of 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 will 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 will likely 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.

On occasion, Sankaty will also be provided with material non-public information that would typically 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 has the potential to cause the Sankaty Client to incur significant legal fees and potential losses.

Event-Driven Special Situations

Sankaty Clients, 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 will be unable to, or will choose not to, implement risk management strategies because of the costs involved or other relevant circumstances.

Market Disruption Risk and Terrorism Risk

The military operations of the United States and its allies, the instability in various parts of the world and the prevalence of terrorist attacks throughout the world could have significant adverse effects on the global economy. In addition, certain illnesses spread rapidly and have the potential to significantly affect the global economy. Terrorist attacks, in particular, may exacerbate some of the foregoing risk factors. A terrorist attack involving, or in the vicinity of, a company in which Sankaty Clients invests may result in a liability far in excess of available insurance coverage. Neither Brookside Capital nor the General Partner can predict the likelihood of these types of events occurring in the future nor how such events may affect Sankaty Clients.

Interest Rate, Currency Exchange and Investment Risk Management

While under no obligation to do so, certain Sankaty Clients are authorized to use various investment strategies to hedge interest rate or currency exchange risks, and Sankaty may enter into hedging arrangements with a broker, a bank, or other financial organizations. Such strategies in general are usually intended to limit or reduce investment risk but can also be expected to limit or reduce the potential for profit. The hedging arrangements seek to establish other positions designed to gain from those same fluctuations in order to moderate the decline in the values of the interest rate or currency exchange. Techniques and instruments change over time as new instruments and strategies are developed or regulatory changes occur. Sankaty Clients generally 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. Sankaty may determine in its sole discretion not to hedge against certain risks, and certain risks may exist that cannot be hedged

and the decision as to when and to what extent the Sankaty Clients will engage in hedging transactions will depend upon a number of factors and variables, including market conditions. Accordingly, there can be no assurance that the Sankaty Clients will engage in hedging transactions at any given time or from time to time, or that such transactions, if available, will be effective and

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 would likely 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. Additionally, a Sankaty Client's hedging arrangements that are undertaken through brokers, banks or other organizations will subject the Sankaty Client to the risk of default or insolvency of such organizations. In such event, there can be no assurance that any money advanced to such organizations would be repaid or that the Sankaty Client would have any recourse in such event of non-payment.

Sankaty Clients have in the past and may in the future 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 are generally 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 often 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, 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 Sankaty will adopt any particular program or strategy or that, if adopted any such investment program will be undertaken successfully.

Contingent Liabilities

Sankaty Clients, from time to time, incur contingent liabilities in connection with an investment. For example, such Sankaty Client will acquire a revolving credit or delayed draw term facility that has not yet been fully drawn or will 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 are required to be funded after the termination of the Sankaty Client investment period. Sankaty Clients often 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.

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 there is a possibility that changes in the regulation of private investment funds will 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.

Cyber Security Risk

With the increased use of technologies such as the internet and the dependence on computer systems to perform necessary business functions, investment vehicles such as the Sankaty Clients and their service providers may be prone to operational and information security risks resulting from cyber-attacks. In general, cyber-attacks result from deliberate attacks, but unintentional events may have effects similar to those caused by cyber-attacks. Cyber-attacks include, among other behaviors, stealing or corrupting data maintained online or digitally, denial-of-service attacks on websites, the unauthorized release of confidential information and causing operational disruption. Successful cyber-attacks against, or security breakdowns of, the Sankaty Clients, the respective General Partners (as applicable), Sankaty, the Sankaty Clients' custodian and/or other third party service providers may adversely impact the Sankaty Clients. For instance, cyber-attacks may interfere with the processing of transactions, impact the Sankaty Clients' ability to value its assets, cause the release of private information or confidential information of the Sankaty Clients, impede trading, cause reputational damage, and subject the Sankaty Clients to regulatory fines, penalties or financial losses, reimbursement or other compensation costs, and/or additional compliance costs. The Sankaty Clients may also incur substantial costs for cyber security risk management in order to prevent any cyber incidents in the future. The Sankaty Clients could be negatively impacted as a result. While the Sankaty Clients or the Sankaty Clients' service providers have established business continuity plans and systems designed to prevent such cyber-attacks, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified. Similar types of cyber security risks are also present for issuers of securities or other instruments in which the Sankaty Clients invest, which could result in material adverse consequences for such issuers, and may cause the Sankaty Clients' investment therein to lose value.

Item 9. Disciplinary Information

In relation to certain equity ownership reports that were inadvertently filed late in 2010 and thereafter in amendments, Sankaty Advisors, LP, in September 2014, voluntarily agreed, without admitting any wrongdoing, to pay a \$68,000 penalty as part of a settlement with the SEC. Under Section 13(d) of the Securities Exchange Act of 1934 and related rules, any person who has acquired beneficial ownership of more than 5% of certain equity securities must file, within 10 days, a disclosure statement with the SEC, and must amend its filings when material changes occur. There is no state of mind requirement for Section 13(d) reporting requirements, and the inadvertent failure to timely file a required report constitutes a violation. The filings were made with respect to equities held in Sankaty's Special Situations business. The SEC considered that Sankaty took remedial steps and recognized its cooperation in the matter. The penalty was paid by Sankaty and was not borne by any Sankaty Clients or investors in any Sankaty Client.

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.

Affiliated Advisors

Sankaty currently has five affiliated advisers based in the U.S., each of which focuses primarily on a different area of investment management, although such areas overlap from time to time (such advisers, together with Sankaty, the "U.S. Affiliate Advisors"). Each U.S. Affiliate Advisor is registered as an investment adviser with the Securities and Exchange Commission. The U.S. Affiliate Advisors currently include, in addition to Sankaty:

- Bain Capital Partners, LP, which focuses on leveraged buyouts and growth capital in a wide variety of industries;
- Brookside Capital, LP, 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 Ventures, LP, 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;
- Boylston Advisors, LP ("Boylston"), which focuses on providing alternative investment opportunities to current and former personnel of Bain Capital and invests primarily in 3rd party Private Fund managers via managed funds of funds and direct investments. In addition, Boylston related persons also serve as the general partners to investment vehicles whose primary purpose is to invest in, or coinvest with, investment funds managed by Sankaty and other Affiliate Advisors for the benefit of employees and former employees of Bain Capital, LP and its affiliates; and

- Sankaty Capital Advisors, LP, is a subsidiary of Sankaty Advisors, LP, and is expected to serve as the investment manager to a Business Development Company.

In addition to the U.S. Affiliate Advisors, Bain Capital Europe, LLP, Sankaty Advisors Ltd., and Sankaty Advisors Europe, Ltd., are affiliates of Sankaty and are licensed as investment advisers with the United Kingdom Financial Conduct Authority (the “European Affiliate Advisors”). Sankaty Advisors (Australia), Pty. Ltd., is regulated by the Australian Securities and Investments Commission (together with the U.S. Affiliate Advisors, the European Affiliate Advisors the “Affiliate Advisors”).

Each of the non-Sankaty U.S. Affiliate Advisors’ investment activities are conducted independently, but the U.S. Affiliate Advisors 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 Advisors.

Bain Capital has established other non-investment advisory related entities which are affiliates of the U.S. Affiliate Advisors. 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 Advisors.

Potential Conflicts of Interest

The discussion below reflects both historical and current practices of Sankaty and Sankaty Clients and practices vary among the Sankaty Clients. Please refer to the governing and/or disclosure documents of the applicable Sankaty Clients for details regarding these practices.

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.

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

The following factors may alleviate, but will not eliminate, conflicts of interest among a Sankaty Client and other Clients:

- A Sankaty Client will not make or sell any investment or take any action unless the portfolio manager for such Sankaty Client believes that such action considered solely from the viewpoint of such Sankaty Client is beneficial for such Sankaty Client;
- Sankaty seeks to allocate trades among Sankaty Clients in a fair manner, taking into account among other things, investment guideline differences between each Sankaty Client, and the circumstances of each Sankaty Client (such as tax, regulatory, or cash considerations) at the time an investment opportunity is presented. Sankaty has an order management system which is designed to produce trade allocations based upon a series of inputs, including current holdings, mandate guidelines, and Credit Committee and Portfolio Manager trade order instructions;
- The advisory board of Sankaty Clients, whose members are not affiliated with Sankaty, may 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 Sankaty Clients;
- Sankaty and the other Affiliate Advisors have adopted written policies establishing information "walls" designed to limit communication between business units. These policies seek to restrict the transfer of confidential information between these business units, subject to certain exceptions provided in the policies. These policies also establish procedures for communications among personnel of different business units to guard against unlawful and inappropriate disclosure of material, nonpublic information.

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. Other conflicts are discussed throughout this document and this document should be read in its entirety for other conflicts. Dealing with conflicts of interest is complex and difficult, and new and different types of conflicts are likely to subsequently arise.

Sankaty Personnel

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

Advisory Services

The other Affiliate Advisers often perform a variety of services for actual or prospective portfolio companies or other deal-related investment vehicles of the Affiliate Advisors, including financial, operational and transactional services (such as advice and consulting in connection with mergers, acquisitions, add-on acquisitions, refinancings, public offerings, sales and similar transactions), as well as management consulting services (the “Other Services”) for, and will receive compensation from (and expenses reimbursed by), a number of entities, which may include entities in which the Sankaty Funds have interests. In connection with performance of the Other Services, such Affiliate Adviser typically enters into a management agreement with the entity to which the Other Services are provided. The terms of these management agreements may vary but they often extend for a significant period of time (e.g. five to ten years or more) and typically terminate upon a change of control of, or upon an initial public offering by, such entity. It is possible that Affiliate Advisers receive certain termination fees when a management agreement is terminated upon an entity’s initial public offering. These fees are often substantial, particularly in the event such circumstances occur early in the life of the Sankaty Client’s investment in such portfolio company. The appropriate fees for certain advisory services is determined by such Affiliate Adviser providing such Other Services, following negotiation with management of such entity receiving such Other Services and other investors, in consultation with lenders, prior to the investment in a portfolio company being closed. The starting point for such fee is typically based on the relevant operating metric for the such entity (e.g., EBITDA or revenue) which the Affiliate Adviser believes are indicative proxies for the amount of resources that it expects it will provide to the portfolio company, but other factors are considered such as additional effort that may be required in a turnaround situation. Because an independent third-party is not always involved on behalf of the relevant entity receiving the Other Services, a conflict will exist in determination of any such fees and other related terms in the applicable management agreement with such entities. Sankaty does not participate in the negotiation or approval of these arrangements, and these fees will not be shared with Sankaty or 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 have in the past and may in the future 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. On occasion, an Affiliate Advisor will recommend or cause such a third party to take actions that are adverse to a Sankaty Client or companies in which it has invested.

The other Affiliate Advisors have in the past and may in the future also engage and retain advisers, consultants and similar professionals who are not employees or affiliates of such Affiliate Advisor and who, from time to time, receive payments from such Affiliate Advisor or receive payments from or allocations of investment opportunities with respect to, entities, which have in the past and may in the future include entities in which the Sankaty Clients have interests. These fees will not be shared by the Sankaty Clients or the limited partners of the Sankaty Funds.

Personnel of Affiliate Advisors invest in one or more Sankaty Funds. Conflicts will arise to the extent such personnel manage other Funds, the interests of which conflict with those of the Sankaty Funds.

Carried Interest

The General Partner of a Sankaty Partnership generally is entitled to carried interest under the terms of the Partnership Agreement. The existence of the General Partner's carried interest could 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. Sankaty values the investments held by Sankaty Funds. If these valuations 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 could 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. Sankaty also may have an incentive to hold on to investments that have poor prospects of improving in order to receive ongoing management fees and a larger carried interest.

Diverse Investor Base of Sankaty Clients

The Sankaty Clients and other Clients have tax exempt, taxable, 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 have in the past and may in the future be more beneficial for one investor than for another investor, particularly with respect to investors' individual tax situations. In selecting and structuring investments appropriate for a Client, Sankaty and the Affiliate Advisors will consider the investment and tax objectives of the applicable Client, not the investment, tax and other objectives of any investor individually.

Diverse Interests of the Sankaty Funds

The Sankaty Funds, and their respective investors, may have conflicting investment, tax, and other interests with respect to the investments made by the Sankaty Funds. Conflicts of interest may arise in connection with decisions made by Sankaty, including with respect to the nature or

structuring of investments. The structure of investments may differ among the Sankaty Funds, and any such structuring may be more beneficial to one Sankaty Fund and its investors than to another Sankaty Fund. For instance, the manner in which a particular investment is structured may produce tax results that are favorable to a Sankaty Fund, but not to another Sankaty Fund. In selecting investments appropriate for the Sankaty Funds and in structuring those investments, although Sankaty may elect for one or more of the Sankaty Funds entities to decline to participate, Sankaty will generally consider the investment objectives of the Sankaty Funds as a whole, rather than the investment, tax, or other objectives of the Sankaty Funds and their respective investors separately. Conflicts of interest may arise because the use of alternative investment vehicles or the manner in which the Sankaty Funds and any applicable alternative investment vehicle are structured and/or make investments may benefit some investors in the Sankaty Funds, or may result in differing amounts of carried interest than if a different structure had been utilized and/or an alternative investment vehicle had not been utilized.

Co-Investments Alongside Bain Capital Funds

Certain Sankaty Clients will, from time to time, make co-investments in transactions sourced by Bain Capital Partners, LP, the Affiliated Advisor which advises Clients that make private equity investments (the “Private Equity Advisor”), Bain Capital Ventures, LP, the Affiliated Advisor which advises Clients that make venture capital investments (the “Venture Advisor”) and Brookside Capital, LP, 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 and other investment, the applicable Co-Investment Advisor will often 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 will generally 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 are often substantial and the Sankaty Client will not share in such fees and reimbursements.

Transactions Between Sankaty Clients

From time to time, Sankaty will cause a Sankaty Client to purchase investments from, or sell investments to, another Sankaty Client. Such transactions could create conflicts of interest because, by not exposing such buy and sell transactions to market forces, a Sankaty Client may not receive the best price otherwise possible, or Sankaty might have an incentive to improve the performance of one Client by selling underperforming assets to another Client. Additionally, in connection with such transactions, Sankaty (i) might have significant investments, or intentions to invest, in the Sankaty Client that is selling and/or purchasing such an investment or (ii) otherwise have a direct or indirect interest in the investment. Sankaty and its affiliates may receive management or other fees or profits in connection with their management of the relevant Sankaty Clients involved in such a transaction. Sankaty will only cause a Sankaty Client to engage in such transactions if it determines that the terms and conditions of such transactions are at least equivalent to the Sankaty Clients as the terms it would obtain in a comparable arm's length transaction with a third party. Conflicts will also arise in connection with loans or other assets originated by a Sankaty Client and sold to other Sankaty Clients. On occasion, a Sankaty Client will 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 will 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 will be reduced. 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.

Principal Transactions

Section 206 under the Advisers Act regulates principal transactions among an investment adviser and its affiliates, on the one hand, and the clients thereof, on the other hand. Very generally, if an investment adviser or an affiliate thereof proposes to purchase a security from, or sell a security to, a client (what is commonly referred to as a "principal transaction"), Sankaty must make certain disclosures to the client of the terms of the proposed transaction and obtain the client's consent to the transaction. In connection with Sankaty's management of Sankaty Clients or on occasions otherwise, Sankaty and its affiliates from time to time engage in principal transactions. Sankaty has established certain policies and procedures to comply with the requirements of the Advisers Act and the Investment Company Act as they relate to principal transactions, including, among other things, that disclosures required by Section 206 of the Advisers Act be made to the applicable Sankaty regarding any proposed principal transactions and that any required prior consent to the transaction be received.

Allocation of Investment Opportunities

Sankaty sponsors and manages various investment vehicles, and Sankaty expects to form new investment vehicles in the future. Sankaty seeks to allocate investment opportunities among Sankaty Clients in a fair manner, taking into account among other things, investment guideline differences between each Sankaty Client, and the circumstances of each Sankaty Client (such as tax, regulatory, or cash considerations, and the investment stage of the Sankaty Client) at the time an investment opportunity is presented. There can be no guarantee Sankaty Clients sharing a similar strategy will participate in all investment opportunities and, due to various factors present at the time an opportunity is presented, some Sankaty Clients likely will not participate.² In addition, Sankaty has, and may in the future, enter into joint venture arrangements with third parties which could require it to split investment allocations with those third parties. While Sankaty believes such arrangements present Sankaty Clients with additional opportunities that may otherwise not have been present, Sankaty Clients could receive a smaller allocation of the applicable investment than if it had pursued the investment opportunity without a third party.

Affiliated Advisors also sponsor and manage various investment vehicles, and expect to form additional vehicles in the future. From time to time, other Clients will 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, often vary from those of other Clients. These relationships are likely to 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 will generally include, but not be limited to, 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 (including those related to the Investment Company Act), 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 the other Affiliate Advisors 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 Advisors reserve similar rights with respect to the Clients that they advise. As a result, from time to time a Sankaty Client will be

² In some circumstances, due to regulatory considerations related to the Investment Company Act, the 1940 Act Funds may not be considered eligible Sankaty Clients for allocation purposes.

purchasing an investment at a time when another Client is selling the same or a similar investment, or vice versa. In the past and possibly in the future a Sankaty Client has invested in opportunities that other Clients have declined, and likewise, a Sankaty Client has declined to invest in opportunities in which other Clients have invested.

Investments Alongside Sankaty Clients and other Clients

Conflicts also 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 have in the past and may in the future be appropriate for a Sankaty Client and certain Clients at the same, different or overlapping levels of a portfolio company's capital structure. Conflicts 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. Another Client that holds an equity interest in a portfolio company may have a conflict of interest in recommending that such portfolio company take, or refrain from taking, certain actions with respect to debt securities held by a Sankaty Client or another Client. In addition, a conflict will 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 will 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 will likely be affected by a fund's stage in its life cycle.

Business with Investors

The General Partner of a Sankaty Fund and the General Partners of the other Clients will, from time to time, utilize the services of limited partners and their affiliates on an arm's length basis, as they deem appropriate.

Investment in Other Sankaty Clients

Sankaty Clients have in the past and may in the future 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, carried interest and other Incentive Fees, 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, carried interest and Incentive Fees with respect to the Sankaty Client.

Allocation of Fees and Expenses

The appropriate allocation among Sankaty Clients of expenses and fees generated in the course of evaluating and making investments often will not be clear, especially where more than one Sankaty 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 such Sankaty Clients (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.

Investments sourced and evaluated by Sankaty that are deemed inappropriate and rejected for investment by Sankaty Clients have in the past and may in the future be offered to the Affiliate Advisers for investment by the other Clients or for investment directly by Affiliated Advisor personnel. The other Clients or Affiliated Advisor personnel will, for some investments, benefit from the evaluation and due diligence undertaken by Sankaty on behalf of Sankaty Clients. In such circumstances, the other Clients and/or Affiliated Adviser personnel that have invested will be allocated the expenses, as determined in good faith by the applicable General Partners of the other Clients, incurred by Sankaty and/or the other Clients as they relate to such investment.

Multiple Levels of Fees & Expenses

A Sankaty Client may invest in a pooled investment vehicle that is advised by a third party manager, including registered investment companies (an “Underlying Fund”). In such a case, the Sankaty Client could bear not only the direct management fees and other expenses associated with their investment vehicle, but also the expenses and fees associated with the investment in the Underlying Fund. While often such fees and expenses are offset in accordance with Sankaty Client documents, investors could be charged by both the Underlying Fund and Sankaty.

The valuation of a Sankaty Client’s investment in an Underlying Fund in many cases will be based on information provided by the third party managers of the Underlying Funds. Certain securities in which the Underlying Funds invest may not have a readily ascertainable market price and will be valued by the third party managers of the Underlying Funds or their administrators. In this regard, a third party manager may face a conflict of interest in valuing the securities, as its value will affect the third party manager’s compensation, both with respect to fixed asset-based fees, as well as performance-based fees and allocations. Such compensation may be based on calculations of realized and unrealized gains made by the third party manager without independent oversight. In addition, the Sankaty Clients do not control any of the third party managers, their choice of investments, or any other of their investment decisions.

Investment in a Sankaty Partnership by Clients

Certain Clients will invest in a Sankaty Partnership as limited partners. Sankaty will, from time to time and 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 has the discretion to decide not to provide any such information at any time. As a condition of receiving such information, the Affiliate Advisor 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.

From time to time, a Sankaty Partnership will waive advisory fees and performance allocations, if applicable, with respect to Clients that are limited partners in such Sankaty Partnership. On occasion, Affiliate Advisors will receive advisory fees and performance allocations from the Clients. From time to time, the Clients will 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 will 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 will agree from time to time to "cross" ethical walls, and Bain Capital will 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 will at times limit the ability of the Sankaty Client to buy and sell investments. In addition, Sankaty will from time to time be restricted by contract from using confidential information that it, or another Affiliate Advisor, has for the benefit of a Sankaty Client. Additionally, Sankaty establishes and maintains similar "ethical walls" internally designed to limit communication between business units within Sankaty. These "ethical walls" restrict the transfer of confidential information between these internal business units, subject to certain exceptions. Sankaty may also establish policies and procedures governing communications among employees of different business units within Sankaty to guard against unlawful and inappropriate disclosure of material, nonpublic information.

Conflicts Relating to Existing Investments

Affiliated Investments

Further conflicts will 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 have in the past and may in the future 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 will be prohibited from exercising voting or other rights, and will 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, and, if the other Client making the follow-on investment has not previously invested in the relevant portfolio company, raise the risk of using such other Client's assets to support positions taken by other Clients. In addition, from time to time, a Sankaty Client will participate in releveraging and recapitalization transactions involving portfolio companies in which other Clients have invested or will invest. Recapitalization transactions will 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

Additionally, Sankaty will, from time to time, establish certain investment vehicles through which certain Sankaty Clients, other Clients, their respective affiliates and/or Sankaty employees, or other persons invest alongside one or more Sankaty Funds in one or more investment opportunities. Such vehicles, referred to herein as "co-investment vehicles," generally to purchase and sell each

investment opportunity at substantially the same time and substantially the same terms as the applicable Sankaty Fund that is invested in that investment opportunity. Such co-investment vehicles generally do not pay management fees or carried interest.

The allocation of such co-investment opportunities will be in proportion to the commitments of such Sankaty Clients or such other method as determined by Sankaty in its sole discretion and generally 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. Additionally, non-binding acknowledgments of interest in co-investment opportunities do not require Sankaty to notify the recipients of such acknowledgments if there is a co-investment opportunity.

In the event Sankaty determines to offer an investment opportunity co-investors, there can be no assurance that Sankaty will be successful in offering a co-investment opportunity to a potential co-investor, in whole or in part, that the closing of such co-investment will be consummated in a timely manner, that the co-investment will take place on the terms and conditions that will be preferable for the Sankaty Client or that expenses incurred by the applicable Sankaty Client with respect to the syndication of the co-investment will not be substantial. In the event that Sankaty is not successful in offering a co-investment opportunity to potential co-investors, in whole or in part, the applicable Sankaty Client, consequently, will likely hold a greater concentration and have exposure in the related investment opportunity than was initially intended, which could make the applicable Sankaty Client more susceptible to fluctuations in value resulting from adverse economic and/or business conditions with respect thereto. Moreover, an investment by the applicable Sankaty Client which is not syndicated to co-investors as originally anticipated could significantly reduce the applicable Sankaty Client's overall investment returns.

Equity Investments

The Sankaty Clients and/or other Clients in many cases will 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, there is a risk that the Sankaty Clients and other Clients will 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

At times, a portion of a Client's investments will 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, there is a risk that the Client will 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 that Act.

Indentures

If a Sankaty Client directly or indirectly controls or is 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, then 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.

Incentive to Recommend Affiliate Products

The Affiliate Advisors have an incentive to recommend the products or services of certain investors in other Sankaty Clients or Clients or their related businesses to other Sankaty Clients or Clients or their portfolio companies, even though they may not necessarily be the best available to other Sankaty Clients or Clients or the portfolio companies.

Investment Advisory Board

Certain Sankaty Clients have established 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 is under no obligation to act in the best interests of the Sankaty Clients as a whole. This will result in potential conflicts of interest. In addition, AB Members generally receive information regarding the proposed investment activities of the Sankaty Clients that is not generally available to the public or other limited partners of Sankaty Clients. 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 will 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. In certain cases, consent of members of the Advisory Board will 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.

Sankaty Clients in an Advisory Role

Certain members of Sankaty Clients' 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) will, 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.

Access to Information

The partnership agreements permit the General Partners to withhold information from certain limited partners in certain circumstances. For instance, certain information will generally be withheld from limited partners that are subject to the U.S. Freedom of Information Act or similar requirements. The General Partners will at times elect to withhold certain information to such limited partners for reasons relating to the General Partners' public reputation or overall business strategy, despite the potential benefits to such limited partners of receiving such information.

At times, the Sankaty Funds will 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 the Sankaty Funds. Consequently, the relevant separate account client will have access to information about such portfolio holdings before investors in the Sankaty Funds.

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 are investors in certain Clients, and could also represent one or more portfolio companies or limited partners of the Clients. Additionally, Sankaty and Sankaty Clients and the portfolio companies may engage other

common service providers. In such circumstances, there may be a conflict of interest between Sankaty, on the one hand, and Sankaty Clients and portfolio companies, on the other hand, in determining whether to engage such service providers, including the possibility that Sankaty may favor the engagement or continued engagement of such persons if it receives a benefit from such service providers, such as lower fees, that it would not receive absent the engagement of such service provider by Sankaty Clients and/or the portfolio companies.

Sankaty and/or the applicable General Partner or a Sankaty Partnership often enter into certain side letter arrangements with certain investors in a Sankaty Partnership providing such investors with different or preferential rights or terms, including but not limited to, economic terms, information and reporting rights, transfer rights, or provisions necessary to comply with tax, regulatory or internal policy requirements applicable to investors.

ERISA

One or more Sankaty Clients or other Clients may hold “plan assets” subject to ERISA. With respect to those plan assets, if any, Sankaty 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 will be restricted from entering into certain transactions if the investment would violate ERISA with respect to the Sankaty Client or such other Clients, or will 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 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 Code of Ethics policy for its personnel. The Policy describes personnel standard of conduct and fiduciary duties and limits personal trading by its personnel 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. Personnel must report every account that they or their immediate family member use for trading securities covered by the policy and, if they directly or indirectly influence or control trading in the account, they must generally pre-clear covered securities transactions and have copies of trade confirmations and periodic account statements sent by their broker to the compliance department. Controlled trading by personnel and their immediate family/household members is prohibited in a wide range of securities that appear on restricted lists and confidential watch lists, and additional steps are taken to ensure that personnel and their immediate family/household members are not permitted to trade for their personal

account in securities selected for the Sankaty Clients and to ensure personnel do not engage in “front-running” of the Sankaty Clients’ investment opportunities.

Personnel are required to promptly report any violation of the Code of Ethics policy of which they become aware. Personnel are required to annually certify compliance with the Code of Ethics policy.

A detailed summary of the Code of Ethics is available to investors and prospective investors during the investment due diligence process. A copy may be obtained by contacting the Sankaty 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 above.

In addition, Sankaty’s personnel may buy securities in transactions offered to but rejected by the Sankaty Clients. Such transactions are subject to the policies and procedures set forth in Sankaty’s Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments may vary from those of the Sankaty Clients. If Sankaty personnel have made large capital investments in or alongside the Sankaty Clients, they may have conflicting interests with respect to these investments. For further details regarding these arrangements, as well as related conflicts of interest, please see 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 will at times 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 could be broadly useful and of value to Sankaty in rendering investment advice to all or a significant portion of the Sankaty Clients, or could 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 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 often aggregates trades pursuant to formal written procedures, which generally provide that such allocation is made on a pro rata basis based on open orders among participating Sankaty Clients.³ Certain exceptions will, 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. In addition, Sankaty Clients could be, and have been, excluded from trade allocations if their allocation falls below a security’s minimum denomination. For additional information regarding the allocation of investments among Sankaty Clients and Clients of the non-Sankaty Affiliated Advisors, please see Item 10 above.

If a Separate Account Client requests or directs Sankaty to place transactions for its separate account with one or more specified broker-dealers (“Directed Brokerage”), then 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 will at times 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, as a result, will likely 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.

Aggregation of Trades

Sankaty aggregates (or bunches) the orders of more than one Sankaty Client for the purchase or sale of the same security or loan. Portfolio managers and traders often employ this practice because larger transactions generally enable them to obtain better overall prices, including lower

³ In some circumstances, due to regulatory considerations related to the Investment Company Act, the 1940 Act Funds may not be considered eligible Sankaty Clients for allocation purposes.

commission costs or mark-ups or mark-downs. In such cases, Sankaty generally aggregates trade orders for securities and loans so that each participating Sankaty Client will receive the average price for each execution of a transaction.

If an order for more than one Sankaty Client for a publicly traded security cannot be executed, allocation shall be made based on Sankaty's procedures for allocation of investment opportunities, as described in Item 10 above.

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 certain investments 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 and 1940 Act Funds 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 will, from time to time, in their sole discretion, provide additional information upon request 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 (except for the 1940 Act Funds) will receive regular reporting updates through quarterly letters, investor meetings and other materials provided on the investor website.

Separate Account Clients generally 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 will, in certain instances, receive discounts on products and services provided by portfolio companies.

Sankaty from time to time will use placement agents and finders to assist with identifying potential investors.

Item 15. Custody

Limited partners of certain Sankaty Partnerships receive account statements directly from a qualified custodian. In certain 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.

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 and not individually to investors in the Sankaty Partnerships. 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 management 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 collateral management 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.

With respect to the 1940 Act Funds, Sankaty provides investment advisory services in accordance with the relevant Fund's investment policies and restrictions, as stated in such Fund's then-current prospectus and statement of additional information.

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 will 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 will seek to 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, LP, 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.