

PART 2A OF FORM ADV: FIRM BROCHURE

ITEM 1. COVER PAGE

Armory Credit GP, LLC  
1230 Rosecrans Avenue, Suite 660  
Manhattan Beach, CA 90266  
(310) 643-9100

January 1, 2012

This brochure provides information about the qualifications and business practices of Armory Credit GP, LLC (formerly Opco Distressed Advisors, LLC). If you have any questions about the contents of this brochure, please contact Nicholas W. Tell, Jr. at (310) 643-9100 or [ntell@armoryfunds.com](mailto:ntell@armoryfunds.com).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Armory Credit GP, LLC also is available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration with the SEC as an investment adviser does not imply a certain level of skill or training.

## ITEM 2. Material Changes

This Brochure is an amendment to Form ADV Part 2A for Armory Credit GP, LLC (“ACGP”) (formerly Opco Distressed Advisors, LLC). The material changes being made in this amendment reflect a change in ownership and officers of ACGP.

ITEM 3  
TABLE OF CONTENTS

ITEM 4 ADVISORY BUSINESS.....	4
ITEM 5 FEES AND COMPENSATION.....	5
ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY SIDE MANAGEMENT.....	6
ITEM 7 TYPES OF CLIENTS.....	6
ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....	7
ITEM 9 DISCIPLINARY INFORMATION.....	20
ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....	20
ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	22
ITEM 12 BROKERAGE PRACTICES.....	23
ITEM 13 REVIEW OF ACCOUNTS.....	23
ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION.....	23
ITEM 15 CUSTODY.....	23
ITEM 16 INVESTMENT DISCRETION.....	24
ITEM 17 VOTING CLIENT SECURITIES.....	24
ITEM 18 FINANCIAL INFORMATION.....	24

#### ITEM 4. ADVISORY BUSINESS

##### A. General Description of Advisory Firm

Armory Credit GP, LLC (“ACGP”) (formerly Opco Distressed Advisors, LLC) is a Delaware limited liability company which was formed on March 29, 2007 and acts as the general partner (the “General Partner”) of Armory Credit Opportunity Fund, LP (the “Fund”) (formerly Oppenheimer Distressed Opportunities, LP ), a private investment fund.

Interests in the Fund (“Interests”) are offered to U.S. investors. The minimum subscription for Interests, unless waived, reduced or increased by ACGP or Armory Funds, LLC (formerly Fulcrum Strategy, LLC, the investment manager to the Fund), is \$500,000. ACGP, in its discretion and without the consent of investors, may establish other classes or series of Interests, including classes or series that differ as to fees charged, withdrawal rights and/or other terms (subject to any limitations set forth in the Fund’s Agreement). The terms of such classes or series is determined by ACGP, in its sole discretion.

ACGP does not offer customized services for individual clients.

As of December 31, 2010 ACGP managed \$49,139,209 of client assets on a discretionary basis. ACGP did not manage any client assets on a non-discretionary basis.

*[Remainder of Page Intentionally Left Blank.]*

## ITEM 5. FEES AND COMPENSATION

### A. Advisory Fees and Compensation

The Fund establishes a capital account for each investor in connection with the investor's initial capital contribution. Capital accounts are increased by any additional capital contributions of the investors and by any net capital appreciation allocable to the investors. Capital accounts are reduced by any net capital depreciation allocable to the investors, the amount of the Fund's expenses, including the management fee payable to Armory Funds, LLC (formerly Fulcrum Strategy, LLC) (the "Management Fee") and the performance-based allocation (the "Performance-based Allocation"), if any, that is credited to ACGP's account, any withdrawals and other similar changes during the term of the Fund.

The Management Fee and Performance-based Allocation are allocated between Armory Funds, LLC ("Armory") and ACGP.

<b>Management Fee</b>	0.50% quarterly (2.0% annually) of the capital account balance of each investor in the Fund
<b>Performance-based Allocation</b>	20% (annually) of the aggregate net capital appreciation, if any, allocated to each investor's capital account during the fiscal year (subject to a loss recovery provision)

### B. Payment of Fees

The Performance-based Allocation is also to be made in these situations:

- (i) the investor effects a partial or complete withdrawal of capital from the Fund other than at the end of the fiscal year;
- (ii) in the event of a partial withdrawal; or
- (iii) in the event the Fund is dissolved or ACGP withdraws or is removed other than as of the end of the fiscal year.

### C. Additional Fees and Expenses

The Fund intends to enter into a non-exclusive placement arrangement with Oppenheimer & Co. Inc. ("OPCO") to solicit investors for the Fund. No sales charges are payable to the Fund or to ACGP in connection with the offering of Interests. OPCO bears costs associated with its activities as placement agent and Armory compensates OPCO's financial advisors that place investors in the Fund.

*[Remainder of Page Intentionally Left Blank.]*

The Bank of New York Mellon (the “Administrator”) has been retained by the Fund to perform certain administrative, accounting, registrar and transfer agency services for the Fund. The Administrator receives customary fees that are paid out of the assets of the Fund. The Administrator is reimbursed for specified reasonable out-of-pocket expenses. The Fund also may use another administrator in the future.

The Fund pays its own expenses out of the proceeds it receives from the initial offering of the Interests, in an amount not exceeding 1% of the net assets of the Fund. Such expenses include, without limitation: organization and offering expenses; investment-related expenses (*e.g.*, brokerage commissions, interest on margin accounts and other indebtedness, borrowing charges on securities sold short, custodial fees, clearing and settlement charges and interest expenses); research-related expenses, including without limitation, news and quotation equipment and services; fees to third-party providers of risk-monitoring services; fees of the Fund’s administrator; legal expenses; professional fees (including, without limitation, expenses of valuation and other consultants, underwriters, operating partners, joint advisors and experts); auditing and tax preparation expenses; third-party accounting expenses; costs of printing and mailing reports and notices; expenses relating to obtaining insurance for members of ACGP management fees; entity-level taxes; other expenses related to the purchase, sale or transmittal of Fund assets; and extraordinary expenses and other similar expenses related to the Fund. Costs and expenses are shared by all investors in the Fund (other than management fee, which is not borne by ACGP); provided, however, that ACGP may, in its discretion, specially allocate expenses to an investor’s capital account to reflect such investor’s interest in Special Investments (defined below) in proportion to their respective participating interest therein. (Special investments are securities or other assets the Fund may acquire, through direct investments or private placements, that Armory believes are illiquid, lack a readily assessable market value or should be held until the resolution of a special event or circumstance. These investments may be maintained in separate memorandum accounts.)

The Fund does not prepay advisory or performance-based allocations.

#### ITEM 6. PERFORMANCE – BASED FEES AND SIDE BY SIDE MANAGEMENT

ACGP receives performance-based allocations; however, as ACGP’s only client is the Fund, no conflicts of interest arise as a result.

#### ITEM 7. TYPES OF CLIENTS

ACGP’s only client is the Fund, a collective private investment vehicle.

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

ACGP has delegated its investment management responsibilities to Armory and retained oversight responsibilities over Armory’s management. Armory’s team of

investment professionals (the “Investment Team”) is responsible for the Fund’s investment decisions.

The Fund expects to invest in securities where the Investment Team believes there is a meaningful disparity between the intrinsic value of the securities and their market value. These reasons may include: (1) difficulties in conducting thorough financial analysis on a troubled, complex or distressed company or industry; (ii) the presence of complex business, legal and/or other difficulties; (from the size of opportunities or access to securities); (v) over-reactions to short-term negative news; (vi) misunderstood business or industry dynamics or cyclicalities or disruptions in the capital markets; and (vii) unfamiliarity with the bankruptcy, out-of-court restructuring or recapitalization process.

Thorough due diligence is conducted to confirm the Investment Team’s analysis that an investment is being made at a discount to fundamental value. A rigorous credit-based research approach is then used to review distressed investment opportunities. This approach includes a three-phase due diligence framework that (i) builds an extensive credit model and then focuses on industry and competitive positioning of the company; (2) utilizes public documents and available financial information but relies on triangulating information obtained from dialogues with management, competitors, customers, suppliers and consultants; and (3) analyzes capital structure, including covenants, and assesses relative value of opportunity by comparing to other industry participants as well as to other companies in the overall market with comparable rating and credit statistics.

#### B. Material, Significant, or Unusual Risks relating to Investment Strategies

Investing in securities involves a risk of loss that clients should be prepared to bear. The Fund’s risk management approach cannot entirely eliminate risk. No assurance can be given that the Fund’s investment objective will be achieved and the investment results may vary substantially on a quarterly and annual basis. The following risk factors do not purport to be a complete list or explanation of the risks in an investment in the Fund. These risks include only those Armory believes to be material, significant or unusual and related to particular significant investment strategies or methods of analysis employed by Armory.

*[Remainder of Page Intentionally Left Blank.]*

## **Distressed Debt Sector and Concentration**

The Fund principally invests in securities and other financial instruments of U.S. domiciled issuers perceived to be heading into or currently in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems or that are involved in bankruptcy or reorganization proceedings. The Fund may lose its entire investment in a troubled company, may be required to accept cash or securities with a value less than the Fund's investment and may be prohibited from exercising certain rights with respect to such investment. Troubled company investments may not show any returns for a considerable period of time. Funding a plan of reorganization involved additional risks, including risks associated with equity ownership in the reorganized entity. Troubled company investments may be adversely affected by state and Federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation. Also among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. The market prices of such securities are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than normally expected. It may take a number of years for the market prices of such securities to reflect their intrinsic value.

The Fund may have significant investments in companies involved in (or the target of) acquisition attempts or tender offers, or in companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, take considerable time or result in a distribution of cash or a new security, the value of which will be less than the purchase price to the Fund of the security, or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which the Fund may invest, there is a potential risk of loss by the Fund of its entire investment in such companies.

*[Remainder of Page Intentionally Left Blank.]*



## **Risks Associated with Bankruptcy Cases**

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors are generally afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of the Fund.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Fund; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. Although the Fund intends to invest primarily in debt securities, the debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Fund's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors may be quite high.

Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those cases where the Fund, by virtue of such action, is found to exercise "domination and control" of a debtor, the Fund may lose its priority if the debtor can demonstrate that its business was adversely affected or other creditors and equity holders were harmed by the Fund.

Although the Fund intends primarily to invest in the distressed debt of U.S. domiciled companies, the Fund may also invest in companies in Organization for Economic Co-Operation and Development ("OCED") countries and other non-U.S. countries. Investment in the debt of financially distressed companies domiciled outside the U.S. involves additional risks. Bankruptcy law and process may differ substantially from that in the U.S., resulting 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 addition, the Fund may be subject to the imposition of withholding or other taxes on interest, dividends, capital gain or other income. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

Armory, on behalf of the Fund, may elect to serve on creditors' committees, official or unofficial, equity holders' committees or other groups to ensure preservation or enhancement of the Fund position as a creditor or equity holder. A number of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If Armory concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the Fund, it will resign from that committee or group, and the Fund may not realize the benefits, if any, of participation on the committee or group. In addition and also as discussed above, if the Fund is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing or increasing its investments in such company while it continues to be represented on such committee or group.

The Fund may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

### **Equitable Subordination**

The Fund does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine (defined below), however, because of the nature of the debt obligations, the Fund may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

Under common law principles that in some cases form the basis for lender liability claims, if a lender (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors – this is referred to as “Equitable Subordination.”

### **Global Investments**

The Fund may invest a portion of its assets in the debt or other securities and instruments of issuers located outside the U.S. In addition to business uncertainties, such investments may be affected by political, social and economic uncertainty affecting a country or region. May financial markets are not as developed or as efficient as those in the U.S. and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly as to bankruptcy and

reorganization. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such companies.

The returns on debt securities of non-U.S. issuers reflect interest rates and other market conditions prevailing in those countries. If such non-U.S. debt securities are dominated in currencies other than the U.S. dollar, the effect of gains and losses in the non-U.S. dollar currencies against the U.S. dollar may have a substantial impact on the value of such non-U.S. dollar denominated debt securities. The relative performance of various countries' fixed income markets historically has reflected wide variations relating to the unique characteristics of each country's economy. Year to year fluctuations in certain markets have been significant, and negative returns have been experienced in various markets from time to time.

Investment in the debt of financially distressed companies domiciled outside the U.S. involves additional risks. Bankruptcy laws and process may differ substantially from that in the U.S., resulting 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.

### **Illiquid Investments**

The Fund may invest in securities or other assets which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and the Fund may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The Fund may not be able to readily dispose of such illiquid investment and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. In addition, the Fund may be prohibited by applicable securities laws for a period of time from selling securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available. The sale of restricted and illiquid assets often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may be carried on the books of the Fund at a discounted value. There is no guarantee that such securities could be sold at such price.

*[Remainder of Page Intentionally Left Blank.]*

## **Special Investments**

The Fund may invest part of its assets in investments that ACGP and Armory believe are illiquid, lack a readily assessable market value or should be held until the resolution of a special event or circumstances (“Special Investments”). Special Investments are not expected to comprise more than 20% of the value of the capital account of an investor (determined at the time a position is acquired, with securities or other assets held in a Special Investment Account being valued at the lower cost or fair value when for this purpose). At any time, Special Investments made by the Fund may constitute a greater than 20% share of an investor’s capital account due to various factors including the following:

- (i) the 20% guideline is applied on a Fund-wide, rather than a investor-specific basis;
- (ii) Special Investments are valued based on cost (until realized or deemed realized) for this purpose rather than fair value, the latter of which may exceed cost; and
- (iii) Appreciation or depreciation in hedge positions that relate to, and are a part of, a Special Investment will not be taken into account in calculating the 20% guideline.

The Fund may not be able to readily dispose of Special Investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time.

Special Investments and other assets and liabilities for which no such market prices are available generally will be carried on the books of the Fund at fair value (which may be cost) as reasonably determined by Armory. There is no guarantee that fair value will represent the value that will be realized by the Fund on the eventual disposition of the investment or that would, in fact, be realized by the Fund on the eventual disposition of the investment. A withdrawing investor with an interest in a Special Investment will not receive any amount in respect of such interest until the related Special Investment is realized or deemed realized.

## **Uncertain Exit Strategies**

Due to the illiquid nature of many of the positions which the Fund is expected to acquire, as well as the uncertainties of the reorganization and active management process, Armory is unable to predict with confidence what the exit strategy will ultimately be for any given core position, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

*[Remainder of Page Intentionally Left Blank.]*

## **Limited Diversification and Concentration**

To the extent that a relatively high percentage of the Fund's assets are invested in the securities of a limited number of issuers within the debt and distressed debt sectors, and within particular industries within those sectors, the Fund's investment portfolio will be more susceptible to any single economic, political or regulatory occurrence, than the portfolio of a diversified investment company or an investment company not so concentrated. In addition, while the Fund is subject to certain exposure limitations with respect to its investments, such exposure is determined with respect to each investment as of the time of such investment. The Fund's exposure may exceed these limitations from time to time thereafter, and the Fund is under no obligation to reduce any such exposure.

## **Leverage**

The Fund may borrow money to purchase securities, a practice known as "leverage," which involves certain risks. In this regard, the Fund may take margin purchases of securities, borrow money from banks and enter into reverse repurchase agreements. The Fund may also borrow money for temporary or emergency purposes to maintain necessary liquidity or to avoid untimely liquidation of portfolio securities.

Trading equity securities on margin involves an initial cash requirement representing at least 50% of the underlying security's value with respect to transactions in U.S. markets and varying (typically lower) percentages with respect to transactions in foreign markets. Borrowings to purchase equity securities typically will be secured by the pledge of those securities. The financing of securities purchases may also be effected through reverse repurchase agreements with banks, brokers and other financial institutions.

Although leverage will increase investment return if the Fund earns a greater return on the investments purchased with borrowed funds than it pays for the use of those funds, the use of leverage will decrease investment return if the Fund fails to earn as much on investments purchased with borrowed funds as it pays for the use of those funds. The use of leverage will therefore magnify the volatility of the value of the Fund's investment portfolio. In the event that the Fund's instruments decline in value, the Fund could be subject to a "margin call" or a "collateral call" pursuant to which the Fund must either deposit additional collateral with the lender or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden, precipitous drop in the value of the Fund's assets, the Fund might not be able to liquidate assets quickly enough to pay off its borrowings. Money borrowed for leveraging will be subject to interest costs that may or may not be recovered by return on the securities purchased, the Fund also may be required to maintain minimum average balances in connection with its borrowings or to pay a commitment or other fee to maintain a line of credit; either of these requirements would increase the cost of borrowing over the stated interest rate.

The Fund may also make short sales against-the-box, in which it sells short securities it owns or has the right to obtain without payment of additional consideration. If the Fund makes a short sale against-the-box, it will be required to set aside securities equivalent in kind and amount to the securities sold short (or securities convertible or exchangeable into those securities) and will be required to hold these securities while the short sale is outstanding. The Fund will incur transaction costs, including interest expenses, in connection with opening, maintaining and closing short sales against-the-box. The Fund will not borrow in excess of 200% of its net asset value, (measured at the time of the borrowing); provided that the Fund may exceed such limit with respect to borrowings incurred to facilitate short trading activity and hedging activity.

### **Hedging Transactions**

The Fund may utilize a variety of financial instruments, such as short sales, options, swaps, caps and floors, and futures and forward contracts and similar derivatives, both for investment purposes and for hedging purposes. While the Fund may enter into hedging transactions to seek to reduce risk, such transactions may not be fully effective in mitigating the risks in all market environments or against all types of risk (including unidentified or unanticipated risks), thereby incurring losses to the Fund. In addition, such hedging transactions may result in a poorer overall performance for the Fund than if it had not engaged in any such hedging transactions. Moreover, it should be noted that (1) Armory may determine not to hedge against, or may not anticipate, certain risks and (2) the portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties).

### **Short Selling**

Short selling involves selling securities which are not owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in market price to the extent that such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Fund engages in short sales will depend upon Armory's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. There can be no assurance that the Fund will be able to maintain the ability to borrow securities sold short. In such cases, the Fund can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender. There can also be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

## **Default/Credit Risk**

To the extent the Fund purchases debt instruments or effects transactions in the “over-the-counter” or “interdealer” markets, the Fund exposes itself to the risk that an issuer or counterparty will not settle a transaction in accordance with its terms and conditions, or will default on an obligation, because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Fund to suffer a loss. Debt instruments or contracts with longer maturities, where events may intervene to prevent settlement, or investments where the Fund has concentrated in a single or small group of issuers or counterparties present greater risks.

### **C. Risks involved with Particular Types of Securities Recommended**

#### **Bonds and Other Debt Securities**

The Fund invests its assets primarily in bonds and other debt securities. The Fund may invest in both investment grade and non-investment grade debt securities, including high quality debt securities for temporary defensive purposes and to maintain liquidity. Securities purchased in accordance with Fund’s investment program generally will be well below investment grade, may not be rated or may be in default. Debt securities include, among other securities: bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by the U.S. Government for one of its agencies or instrumentalities or by a foreign government; municipal securities; and asset-backed securities. These securities may pay fixed, variable or floating rates of interest and may include zero coupon obligations. Debt securities are subject to the risk of the issuer’s inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk).

Investment grade debt securities are securities that have received a rating from at least one nationally recognized statistical rating organization (“NRSRO”) in one of the four highest rating categories or, if not rated by any NRSRO, have been determined by Armory to be of comparable quality. Non-investment grade debt securities (typically called “junk bonds”) are securities that have received a rating from a NRSRO of below investment grade or have been given no rating, and are considered by the NRSRO to be predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. Non-investment grade debt securities in the lowest rating categories may involve a substantial risk of default or may be in default. Adverse changes in economic conditions or developments regarding the individual issuer are more likely to cause price volatility and weaken the capacity of the issuers of non-investment grade debt securities to make principal and interest payments than is the case for higher grade debt securities. An economic downturn affecting an issuer of non-investment grade debt securities may result in an increased incidence of default. In addition, the market for lower grade debt securities may be thinner and less active than for higher-grade debt securities.

## Convertible Securities

Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics, in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases. Typically, convertible debt ranks below senior unsecured debt; however in some instances it may rank *pari-passu*. Institutional investors typically hedge purchases of convertibles by shorting the respective equity. Convertible bond premiums (the price of the convertible bonds above the equity conversion price) fluctuate based on interest rates, prospects for the respective equity and the likelihood of restructuring and resultant recovery potential. Convertibles may be held in the portfolio either hedged for unhedged.

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

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by the Fund is called for redemption, the Fund 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 Fund’s ability to achieve its investment objective.



## **Bank Loans**

These obligations are subject to unique risk, including, without limitation: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Fund to directly enforce their rights with respect to participations. In analyzing each bank loan or participation, Armory compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Fund.

## **Bankruptcy Claims**

The Fund may invest in bankruptcy claims which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. The markets in bankruptcy claims are not generally regulated by the Federal securities laws or the U.S. Securities and Exchange Commission (the "SEC"). Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

## **Credit Default Swaps**

The Fund may invest in credit default swaps. A credit default swap is a contract between two parties which transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. In essence, an institution which owns corporate debt instruments can purchase a limited form of default protection by entering into a credit default swap with another bank, broker-dealer or financial intermediary. The purchaser of credit protection pays an option premium to the credit protection writer to compensate for the risk of loss. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty and receiving a payment of par value, or (ii) by the parties pairing off payments, with the purchase of the protection receiving a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default. The first option is the more common form of credit default swap termination.

*[Remainder of Page Intentionally Left Blank.]*

In the manner described above, credit default swaps can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. In addition, credit default swaps can be used to implement Armory's view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, the Fund may "write" credit default protection in which it is paid a premium to take on the risk. The Fund may also "purchase" credit default protection even in the case in which it does not own the referenced instrument if, in the judgment of Armory, there is a high likelihood of credit deterioration.

The credit default swap market in high yield securities is relatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury Market curve, among other factors. As such, there are many factors upon which market participants may have divergent views. If Armory has a positive view of a company's credit outlook, it may enter into credit default swap transactions in which it assumes the risk of default of an issuer. It may also enter into an opposite transaction, even if the credit outlook is positive, if it believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap.

### **Preferred Stock**

The Fund may invest in non-convertible preferred stock, which may have fixed or variable dividend rates. Preferred stock generally has a preference as to dividends and in the event of liquidation, but it ranks junior to debt securities in an issuer's capital structure. Preferred stock generally pays dividends in cash (or additional shares of preferred stock at a defined rate. But unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock on dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

### **Equity Securities**

While not the primary focus of the Fund's investment portfolio, a portion of the portfolio may consist of long and short positions in common stocks and other equity securities. The value of the Fund's equity securities varies in response to many factors, including, but not limited to, the activities and financial condition of individual companies, the business market in which individual companies compete and general market and economic conditions.

## Commodities and Derivative Investments

The prices of commodities contracts and derivative instruments, including futures and options, are highly volatile. Payments made pursuant to swap agreements may also be highly volatile. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements 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. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, the Fund's assets are also subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties.

The Fund may buy or sell (write) both call options and put options, and when it writes options, it may do so on a "covered" or an "uncovered" basis. A call option is "covered" when the writer owns securities of the same class and amount as those to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. The Fund's option transactions may be part of a hedging strategy (*i.e.*, offsetting the risk involved in another securities position) or a form of leverage, in which the Fund 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 substantial, depending on the circumstances.

In general, without taking into account other positions or transactions the Fund may enter in to, the principal risks involved in options trading can be described as follows: When the Fund 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 price of the underlying security in the case of a put, could result in investment in the option (including commissions). The Fund could mitigate those losses by selling short or buying puts on, the securities for which it holds call options, or by taking a long position (*e.g.*, by buying the securities or buying calls on them) in securities underlying put options.

When the Fund 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. The risk is theoretically unlimited unless the option is "covered." If it is covered, the Fund would forego the opportunity for profit on the underlying security should the market price of the security rise above 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 Fund might suffer as a result of owning the security.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk.

## **Collateralized Debt**

Backed by specified collateral, secured debt may become distressed when collateral value erodes or in the case of recourse debt, when the issuer itself becomes distressed and the collateral value is uncertain. To the extent the Fund invests in obligations secured by collateral (*i.e.*, private debt obligations or over-the-counter transactions), it incurs the risk that such collateral will not be adequate to protect the Fund if the issuer or counterparty were to become insolvent. Therefore, the Fund may lose some, or all of its investment in collateralized obligations. Additionally, even if such collateral is adequate, the Fund could expect delays in receiving such collateral. In bankruptcy, holders of non-recourse collateralized debt are entitled to the proceeds from the sale of collateral but do not have recourse to the issuer. Holders of recourse debt have a claim against the issuer if the collateral value does not cover the collateralized debt claim. Holders may receive cash, new debt, equity or nothing for their claim on the company.

## **Senior Unsecured and Subordinated Debt**

Frequently the unsecured and/or the subordinated debt of a company is the pivotal part of a distressed company's capital structure. In a reorganization or bankruptcy holders of these securities may get full recovery, partial recovery in the form of new debt and or equity, or may get no recovery. Accordingly when a company is in distress the price movements of these securities can be highly volatile. Armory will spend much time focusing on opportunities in this area of the capital structure, due to the large degree of uncertainty regarding valuation and recovery prospects while a company is experiencing financial difficulties. Many mutual funds and managed portfolios contain strict limitations on the quality of their holdings, and in times of financial distress credits experiencing negative ratings action or volatile price movements may be sold with little concern about the actual value of the securities. This situation affords opportunities for portfolios capable of incurring risk.

## **ITEM 9. DISCIPLINARY INFORMATION**

None.

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

Nicholas W. Tell Jr., Portfolio Manager of Armory is a registered representative of Sea Port Group Securities LLC ("Sea Port"). Mr. Tell is Chief Executive Officer and Managing Member of ACGP. Mr. Tell provides investment banking services for certain companies that are clients of Sea Port. Sea Port and Armory have implemented procedures with respect to conflicts of interest related to Mr. Tell's acting in both capacities.

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

### A. Code of Ethics

ACGP has adopted a written Code of Ethics pursuant to Rule 204A-1 under the Advisers Act. A copy of the Code of Ethics is provided upon request to any client or prospective client. The purpose of the Code is to set forth standards of conduct expected of advisory personnel and address conflicts, such as front running, that arise from personal trading by advisory personnel. The Code of Ethics addresses these conflicts as follows:

1. Certain advisory personnel with access to the securities trading of the funds or advisory clients are deemed as “access persons”;
2. These access persons of ACGP are required to certify that they are in compliance with the Code of Ethics on an annual basis;
3. Access persons are also required to provide compliance personnel with brokerage accounts through which they conduct personal trading; and
4. Access persons are required to obtain written pre-clearance by compliance personnel of all personal securities transactions (other than certain exceptions to this requirement as defined in the Code).

ACGP and its related persons are engaged or may engage in investment activities for private investment companies, other registered investment companies, other accounts that may pursue investment strategies similar to those of the Fund or for its own accounts or other related accounts, in which the Fund has no interest. These accounts may from time to time purchase, sell or hold certain investments which are also being purchased, sold or held by the Fund. ACGP will allocate investments among the Fund and these accounts pursuing the same investment strategy on an equitable basis, taking into account such factors as the relative amounts of capital available for new investments and the respective investment programs, diversification goals, and portfolio positions of the Fund and these accounts.

ACGP has a financial interest in the Fund, which it serves in an advisory capacity. ACGP’s advisory role and related compensation is disclosed in the relevant private placement memorandum or accompanying fund organization document and those documents are provided to each prospective client prior to investment in the Fund. ACGP’s employees devote as much of their time to the activities of the Fund as ACGP deems necessary and appropriate.

## ITEM 12. BROKERAGE PRACTICES

ACGP does not select or recommend brokers for the Fund. Armory is responsible for placing orders for the execution of the Fund’s portfolio transactions and the allocation of brokerage.

#### ITEM 13. REVIEW OF ACCOUNTS

Armory reviews client accounts on a daily basis to monitor compliance with investment guidelines.

Each investor in the Fund receives a (1) monthly statement of capital account balances and quarterly unaudited financial reports including a balance sheet, income statement and statement of changes in investor's capital; and (2) an audited financial statement (together with statement of opening and closing capital account balance) within 120 days of the Fund's fiscal year end.

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

ACGP does not receive direct economic benefits from non-clients for providing investment advice or other advisory services to clients.

#### ITEM 15. CUSTODY

Under SEC rules, as General Partner, ACGP is deemed to have custody of Fund client assets. J.P. Morgan Chase & Co. ("JP Morgan"), a qualified custodian, maintains the assets held by the Fund. Account statements related to the Fund are sent by J.P. Morgan to Armory. The Fund is subject to an annual audit, and distributes its audited financial statements to the Fund's investors within 120 days of the Fund's fiscal year end. Such financial statements are prepared in accordance with generally accepted accounting principles (GAAP) and audited by Rothstein, Kass & Company, P.C., an independent public accountant registered with and subject to regular inspection by the Public Company Accounting Oversight Board. Upon liquidation, the Fund distributes its audited financial statements prepared in accordance with GAAP to all investors promptly after the completion of such audit.

#### ITEM 16. INVESTMENT DISCRETION

Armory exercises discretionary authority in managing the Fund and is responsible for the Fund's transactions and brokerage allocations. Armory is also responsible for day-to-day operations management.

#### ITEM 17. VOTING CLIENT SECURITIES

ACGP does not vote proxies for any client.

#### ITEM 18. FINANCIAL INFORMATION

Not Applicable.