

Item 1. Cover Page



12th AVENUE MANAGEMENT, L.P.

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FORM ADV PART 2

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This brochure provides information about the qualifications and business practices of 12th Avenue Management, L.P. If you have any questions about the contents of this brochure, please contact Eric Ross, Senior Managing Director and Chief Compliance Officer, at (212) 878-3500 or eross@avenuecapital.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. Registration as an investment adviser with the SEC does not imply a certain level of skill or training.

Additional information about 12th Avenue Management, L.P. is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2. Material Changes

Since the last annual update of this brochure on March 31, 2015, 12th Avenue Management, L.P. has updated this brochure to provide disclosure with respect to:

- the addition and removal of private investment funds and relying advisers of certain affiliates of the firm (see Item 10 under the heading “ Other Financial Industry Activities and Affiliations – Material Financial Industry Affiliations of the Firm”);
- (i) the receipt of a Type 9 (asset management) license by GL Advisors Hong Kong Limited, an affiliate of the firm, with the Securities and Futures Commission of Hong Kong in August 2015; and (ii) a pre-existing the registration of GL India Mauritius III Ltd., an affiliate of the firm, with the Securities and Exchange Board of India as a “foreign institutional investor” in 2008 (see Item 10 under the heading “Other Financial Industry Activities and Affiliations – Material Financial Industry Affiliations of the Firm”); and
- the expected final distribution of all of the assets of the private funds managed by the firm to their respective investors in mid-2016 (See Item 10 under the heading “Other Financial Industry Activities and Affiliations – Material Financial Industry Affiliations of the Firm.”

Because this Item 2 discusses only those changes to this brochure that have been made since March 31, 2015 that the firm believes to be material, this brochure should be reviewed in its entirety.

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Item 4. Advisory Business

Structure; History and Ownership

12th Avenue Management, L.P. (the “firm”) is an investment adviser with its principal place of business in New York City. The firm provides investment advisory services to private investment funds (“funds”). In addition to our offices in New York, affiliates of the firm have offices in London, Luxembourg, Madrid, Milan, Munich, Sydney, Hong Kong, Beijing, Delhi and Singapore.

This brochure provides information about: (i) the firm and (ii) general partners or managing members of the firm’s fund clients that are relying on the firm’s registration as an investment adviser (in accordance with the U.S. Securities and Exchange Commission (“SEC”) letter to the American Bar Association, Subcommittee on Private Investment Entities dated December 8, 2005 (the “2005 SEC Letter”)), which are listed in Section 7.A. of Schedule D in Part 1A of the firm’s Form ADV. Each general partner or managing member of the firm’s fund clients conducts its activities in accordance with the Investment Advisers Act of 1940, as amended (the “Advisers Act”) and the rules thereunder. Each general partner or managing member of the firm’s fund clients is subject to the supervision and control of the firm, including being subject to the firm’s investment adviser compliance policies and procedures.

12th Avenue Management, L.P. commenced business in 2007. The firm has been registered as an investment adviser with the SEC since August 9, 2007.

The firm, its affiliated SEC-registered investment advisers (Avenue Capital Management II, L.P. (CRD #111845), Avenue Europe International Management, L.P. (CRD #131937) and Avenue Asia Capital Management, L.P. (CRD #113246)) and the general partners and managing members of the firm’s fund clients are part of Avenue Capital Group (“Avenue” or “Avenue Capital”), an established global alternative investment firm founded in 1995. As of December 31, 2015, Avenue Capital had approximately 203 employees worldwide, including 65 investment professionals. Avenue Capital maintains a well-developed infrastructure with extensive accounting, operations, legal, investor relations, risk management, compliance and information technology teams.

Marc Lasry (Chairman, Chief Executive Officer and Co-Founder) and Sonia Gardner (President, Managing Partner and Co-Founder) are the Senior Principals of the firm and together control the general partner of the firm, 12th Avenue Management GenPar, LLC. Richard Furst is the Chief Investment Officer of Avenue Capital and spends a portion of his time providing high level investment oversight globally, including to the firm. Robert G. Russell is a Senior Portfolio Manager and is responsible for the firm’s strategy.

Our primary investment advisory service is to provide discretionary investment advice to private funds. In addition to the funds, we may in the future advise one or more separately managed accounts on a discretionary basis. The objective and strategy of a managed account may but is not required to be similar to the investment objective and strategy of a fund managed by the firm.

Avenue Capital’s primary focus is investing in credit obligations (public and private), including without limitation, distressed debt and equity opportunities, other special situations and high yield investments in the United States, Europe and Asia. Avenue Capital’s primary advisory service is to provide discretionary investment advice to private funds and registered investment companies. The Senior Principals and the Portfolio Managers of the investment funds managed by the firm have spent virtually their entire careers in this space.

The firm's primary investment strategy is a Multi-Manager strategy, pursuant to which we invest in a diverse group of private collective investment pools, commonly known as hedge funds, that are focused on investing primarily in distressed, special situations and deep-value or event-driven strategies. Using our Multi-Manager strategy, we allocate assets to a portfolio of funds that invest in a wide variety of instruments, across asset classes and sectors. We seek to invest with managers that have proven expertise investing in distressed opportunities throughout the distressed cycle. The Multi-Manager strategy generally targets managers focused on:

- distressed securities;
- bank debt;
- high yield debt;
- restructured and post-reorganization equities;
- event-driven situations;
- private lending;
- hedged strategies; and
- trade claims.

Prospective investors in any fund are advised to review the fund's private placement memorandum, explanatory memorandum, or confidential offering circular for a more in-depth description of that fund's investment strategy and objectives, types of assets to be invested in, investment restrictions (if any) and related risk factors.

Some of the private funds we advise are feeder funds to or parallel funds of other funds.

A list of the funds we manage can be found below at Item 10.

Types of Advisory Services

As described above, we provide advisory services to private funds. Neither the firm nor any of our affiliates is acting as an investment adviser or otherwise making any recommendation as to an investor's decision to invest in the funds. The advisory services we provide to investment funds are provided on a discretionary basis.

The investment strategies we employ on behalf of the funds are described below at Item 8.

Assets Under Management

As of December 31, 2015, we managed approximately \$9,317,100 of client assets, all on a discretionary basis.¹

¹ The foregoing amount represents "regulatory assets under management" as calculated in Item 5.F.(2) of the firm's Part 1A of Form ADV.

Item 5. Fees and Compensation

Fees

Detailed information regarding fees is included in each fund's confidential offering memorandum. Because this brochure will only be delivered to "qualified purchasers" investing in our funds, as defined in section 2(a)(51) of the Investment Company Act of 1940, a complete description of our compensation arrangements is not required to be included in this brochure.

Some of our funds pay a management fee and an incentive allocation or performance fee and some of our funds only pay a management fee. Regardless of whether an investor invests directly in an investing fund or indirectly through a dedicated feeder fund that invests substantially all of its assets into an investing fund formed to carry out the investment program, only one layer of management fees and incentive allocations or performance fees will be assessed with respect to the investor.

In the event that our investment management agreement with a fund is terminated, management fees are *pro rated* for partial periods.

Incentive allocations and performance fees are calculated as a percentage of profits of the applicable funds. The investing funds pay incentive allocations or performance fees, in whole or in part, on mark-to-market performance at the end of a period (year-end or upon a partial or full withdrawal), subject to a high watermark.

Management fees are paid to us directly by the funds. Incentive allocations and performance fees are allocated to our account with the relevant fund.

Management fees, incentive allocations and performance fees may be negotiable.

Expenses

Whether an expense is a fund or firm expense shall be determined jointly by the Chief Compliance Officer and Chief Financial Officer, with the assistance of such other parties as they deem necessary. Expense allocation determinations may be made as to broad categories or expense types or on an expense item-by-expense item basis. How an expense is allocated as between funds and the firm shall be documented by the applicable Controllers and consistently applied thereafter.

If permitted under a fund's controlling documents, from time to time the management company may advance payment of an expense on behalf of the fund and to the extent that the expense may be appropriately borne by the funds, the management company may seek reimbursement from the funds.

Once a determination is made that an expense is a fund expense that is attributable to more than one fund, the Chief Compliance Officer and Chief Financial Officer, with the assistance of such other parties as they deem necessary, shall determine the appropriate allocation methodology among the funds. There may be situations where an expense may be allocable to some but not all of the funds that receive the benefit of such expense. In these situations, the funds that can bear the expense shall bear their allocable share of the expense and the firm shall pay the remainder.

The payment of expenses by a fund will reduce the value of each investor's investment in the fund.

Detailed information regarding the expenses to which each fund is subject is set out in the offering documents with respect to the particular fund.

All funds will pay their out-of-pocket operating expenses, including:

- organizational expenses;
- administrative fees and expenses payable to an administrator;
- professional fees, consulting fees (including without limitation, fees payable to business, financial, tax, political and expert network consultants) and expenses of auditors and legal counsel;
- government filing and registration fees;
- insurance (including director's and officer's insurance and errors and omissions insurance);
- expenses incurred in connection with tax compliance;
- costs of communications with limited partners; and
- such other expenses as are set forth in the fund's private placement memorandum and/or organizational documents.

Each dedicated feeder fund will also pay its *pro rata* share of the expenses of any investing fund into which its assets are invested. Investee fund expenses may include:

- organizational expenses;
- investment expenses; and
- any extraordinary expenses incurred.

Each investing fund will pay the following additional expenses relating to its ongoing operations:

- expenses of purchasing, carrying and disposing of portfolio positions, such as:
 - brokerage commissions;
 - research;
 - data and information service providers (*e.g.*, Bloomberg, Debtwire, etc.);
 - interest and commitment fees on borrowings; and
 - withholding and transfer taxes;
- professional fees and expenses of attorneys, accountants, appraisers and other third-party consultants (including without limitation, fees payable to business, financial, tax, political and expert network consultants) in connection with researching and implementing investment opportunities;
- transaction costs associated with making investments in portfolio funds;
- a *pro rata* share of the expenses of portfolio funds in which the master funds invests, including:
 - such portfolio funds' organizational, operating and investment expenses; and
 - any extraordinary expenses incurred by such portfolio funds;
- fees payable to advisors of portfolio funds.

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

We receive part of our compensation from certain of the funds we advise (the investing funds described in Item 5, above) in the form of incentive allocations or performance fees from the accounts of the investors in the fund to our account in the fund. Incentive allocations and performance fees are calculated as a percentage of certain net capital appreciation during a period (subject to high watermarks), and allocated at the end of each fiscal year of the relevant fund. Other funds we advise (the dedicated feeder funds described in Item 5, above) do not pay an incentive allocation or performance fee. As discussed in Item 5, above, the dedicated feeder funds invest substantially all of their assets in the investing funds and do not bear any management fee, or any incentive allocation or performance fee, at the level of the investing funds into which they invest. Because the dedicated feeder funds that do not pay an incentive allocation or performance fee invest substantially all of their assets in the investing funds, which do pay an incentive allocation or performance fee, we do not believe the difference in fee structure creates a conflict of interest. Management fees, incentive allocations and performance fees are negotiable.

We have a fiduciary duty to our clients not to favor the account of one client over that of another, without regard to the types and amounts of fees paid by those accounts. In light of this, we have allocation and other policies and procedures in place to ensure that accounts are treated fairly. We seek to allocate investments among funds with similar strategies that are managed by the same investment team on a *pro rata* basis, targeted net asset basis or targeted total asset basis. However, as described in Item 12, under the heading “Allocation Procedures,” there are a number of reasons for which a particular transaction may not be allocated on a *pro rata* basis.

Item 7. Types of Clients

We serve as the investment manager and provide investment advisory services to private investment funds. Neither the firm nor any of our affiliates is acting as an investment adviser or otherwise making any recommendation as to an investor’s decision to invest in the funds. Investment advice is provided directly to the funds and not individually to each of the funds’ limited partners or shareholders, as applicable.

The funds’ investors may consist of one or more of the following: individuals, pension and profit sharing plans, financial institutions (including funds of funds), trusts, university endowments, charitable organizations and corporations or other business entities.

Each fund investor or managed account client is required:

- to be an “Accredited Investor” as such term is defined in Rule 501(a) of Regulation D under the Securities Act of 1933;
- to be a “Qualified Client” as such term is defined in SEC Rule 205-3 under the Investment Advisers Act of 1940;
- to be a “Qualified Purchaser” as such term is defined in Section 2(a)(51) of the Investment Company Act of 1940; and
- to meet such other eligibility requirements as we determine on a case by case basis.

There is no minimum size for the funds we advise. The funds have minimum investment amounts of \$500,000. These minimums may be reduced or waived by the general partners of the funds that are partnerships or the board of directors or trustees of the funds that are companies or trusts. Subject to applicable statutory minimums, such minimum investment amounts are negotiable.

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

Methods of Analysis and Investment Strategies

The firm's primary investment strategy is a Multi-Manager strategy, pursuant to which we invest in a diverse group of private collective investment pools, commonly known as hedge funds, that are focused on investing primarily in distressed, special situations and deep-value or event-driven strategies. These funds are sometimes referred to herein as portfolio funds. Using our Multi-Manager strategy, we allocate assets to a portfolio of funds that invest in a wide variety of instruments, across asset classes and sectors. We seek to invest with managers that have proven expertise investing in distressed opportunities throughout the distressed cycle. The Multi-Manager strategy generally targets managers focused on:

- distressed securities;
- bank debt;
- high yield debt;
- restructured and post-reorganization equities;
- event-driven situations;
- private lending;
- hedged strategies; and
- trade claims.

As a general matter, we do not use leverage as part of our Multi-Manager strategy, although we may in the future, and the managers to whom we allocate assets may use leverage as part of their investment strategies.

Our investment strategies and certain risks associated with our investment strategies are described in this Item 8. Prospective investors in any fund(s) are advised to review the respective funds' private placement memorandum, explanatory memorandum, or confidential offering circular for a more in-depth description of that fund's investment strategy and objectives and related risk factors.

Risks Associated with the Firm's Investment Strategies

The investment strategies described above that we use for the funds cover a wide range of investment types. Material risks involved in our investment strategies are described below. Prospective investors in any fund are advised to review the fund's private placement memorandum, explanatory memorandum, or confidential offering circular for a more in-depth description of that fund's related risk factors.

Conflicts of Interest

An investment in a fund involves certain potential conflicts of interest, including those described below.

Other Clients. In addition to responsibilities with respect to the management and investment activities of any particular fund, the firm will have similar responsibilities with respect to various other existing and future pooled investment vehicles and clients. The existence of such multiple vehicles and accounts necessarily creates a number of potential conflicts of interest.

Time Commitment. The firm and its affiliates are not obligated to devote any specific amount of time to the affairs of any fund. The firm's affiliates spend substantial time on other business activities, including those related to the other Avenue clients (as defined herein). The firm's Senior Principals and their affiliates currently engage in and will be free to continue to engage in investment activities for their own accounts.

Agreements with Certain Investors in Private Funds. The funds, the firm and their respective affiliates have and may from time to time in the future enter into agreements with one or more investors whereby in consideration for agreeing to invest certain amounts in a fund and other consideration deemed material to the fund, such investors may be granted rights not otherwise afforded to other investors, including, without limitation, the right to receive reports from the fund on a more frequent basis or to receive reports that include information not provided to other investors, the right to pay a reduced carried interest and/or investment management fee, the right to receive a share of the carried interest and/or investment management fee earned by the firm or its affiliate and such other rights as may be negotiated between the funds, the firm and their respective affiliates, on the one hand, and such investor, on the other hand. Such agreements will have the effect of establishing rights under, or altering or supplementing the terms of, the fund's constituent documents with respect to such investors. To the extent that the firm reasonably believes that compliance with any of the provisions of any such agreements would cause the funds, the firm or any of their respective affiliates to violate their respective fiduciary duties or obligations or to violate any applicable laws, any non-compliance with any such provision will not be deemed to be a breach of such agreements.

Transactions with Affiliates. A client may engage in transactions with the firm or its affiliates. The firm may cause a fund to engage in cross trades. Such transaction will be on terms no less advantageous than are available from unaffiliated persons.

Diverse Investment Management Firm. The firm and the other investment managers that make up Avenue engage in a broad range of investment management activities, including sponsoring and managing other pooled investment vehicles, client accounts and other activities. Although the relationships and activities of the Avenue managers should enable these entities to offer attractive opportunities and services to their clients, such relationships and activities, in the ordinary course of business, may also give rise to circumstances in which the interests of these entities and other affiliates of the Avenue managers conflict with the interests of certain of Avenue's clients, including, without limitation, competition with other investment vehicles (proprietary or third-party managed) in which clients may have an interest, purchasing and selling investments in entities in which clients may have an interest, or taking or advocating positions in certain transactions that may be considered adverse to the interests of certain clients. The Avenue managers effectively may engage in opposite transactions with respect to a particular investment (e.g., one Avenue client may acquire a long position in a security on behalf of an Avenue client while one or more of the other Avenue clients sells or shorts the security).

Other Activities. Except for a dedicated team within Avenue Europe International Management, L.P. who are responsible for managing funds that employ the Direct Lending sub-strategy, the firm and its affiliates are not required to manage the investments of any particular client as their sole and exclusive function and each may engage in other business ventures and other activities unrelated to the affairs of any client, including directly or indirectly purchasing, selling, holding or otherwise dealing with any securities for the account of other investment funds, for their own accounts or for the accounts of family members or other clients. Without limiting the foregoing, the firm's Senior Principals and employees, including the Portfolio Managers, may invest in, participate on advisory boards of and/or provide other services to, funds that are unaffiliated with the firm and its family of funds. The firm and its Senior Principals and employees, including the Portfolio Managers, may become aware of business opportunities in which clients will not be given an opportunity to participate.

Investment Management Fee; Incentive Allocation. The investment management fees and the incentive allocations borne by funds have generally not been established on the basis of an arm's-length negotiation between the fund, on the one hand, and the firm or its affiliates, on the other hand. However, the firm believes that the investment management fees, and the terms of the incentive allocations, generally reflect prevailing market terms. The existence of an incentive allocation may create an incentive for the firm to cause a fund to make, more speculative investments than it would otherwise make in the absence of such performance-based compensation.

Although an incentive allocation, such as is paid to the general partners of certain of our private funds, has largely become a customary standard for private investment funds, this type of relative allocation of profits and losses can be characterized as creating an incentive to the general partner for speculative investment and thus a potential conflict with the interests of the limited partners. In addition, since the incentive allocation of certain of our private funds is based upon portfolio gains, both realized and unrealized (net of realized and unrealized losses), it is possible that the general partner may receive an incentive allocation based upon unrealized appreciation in particular positions that was not in fact achieved upon disposition of such positions. Further, while the general partner is entitled to receive an incentive allocation based upon the realized and unrealized net profits initially allocated to each limited partner, it is allocated net losses solely on the basis of its invested capital.

Diverse Investors. Each fund's investors may include taxable and tax-exempt entities and persons or entities resident of or organized in various jurisdictions. As a result, conflicts of interest may arise in connection with decisions made by the firm or an affiliate that may be more beneficial for one type of investor. In making such decisions, the firm and its affiliates intend to consider the investment objectives of the fund as a whole, not the investment objectives of any investor individually.

Minority Investor in Avenue Capital. In the ordinary course of a fund's investment activities, from time to time the fund may enter into transactions with parties related to Morgan Stanley, which is a minority investor in certain entities that are part of Avenue Capital. Such transactions may include, among other things, consulting services, prime brokerage and custodial services and/or the fund purchasing securities from, or settling trades with, a party related to Morgan Stanley.

Tax Risks. The funds and/or investors could become subject to additional or unforeseen taxation in jurisdictions in which the portfolio funds operate and invest. Changes to taxation treaties (or their interpretation) between the U.S. and the countries in which the funds invest may adversely affect the funds' ability to efficiently realize income or capital gains.

There are a number of uncertainties in the tax laws relating to certain distressed assets. There can be no assurance that the position adopted by the funds with respect to the characterization of a particular distressed asset, or the timing and characterization of income and losses associated with such asset, will be respected by the IRS or a court, and any recharacterization by the IRS, if successful, could adversely affect the investors' investments in the funds.

European Union Alternative Investment Fund Managers Directive. The European Union Directive on Alternative Investment Fund Managers (2011/61/EU) (the "AIFMD") applies to the firm to the extent to which it actively markets the funds into each member of the European Union that has implemented the AIFMD. If the funds are marketed to European Union-based investors, (i) they will be subject to certain reporting, disclosure and other compliance obligations under the AIFMD, which may result in the funds incurring additional costs and expenses; and (ii) compliance with AIFMD will also restrict certain activities of the funds in relation to portfolio companies based in the European Union, including, in some circumstances, the funds' ability to recapitalize, refinance or potentially restructure a European Union-based portfolio company within the first two years of ownership.

Risks Related to the Firm's Investment Strategies

Investment and Trading Risks in General. All investments made by the portfolio funds selected by the firm face the risk of loss of capital. Managers may utilize investment techniques such as trading on margin, short sales, substantial leverage, investments in non-marketable securities, foreign currency transactions, highly concentrated portfolios, options trading and the purchase or sale of forward and futures contracts. These techniques and financial instruments can, in certain circumstances, maximize the adverse impact to which a fund may be subject. No guarantee or representation is made that any fund's program will be successful, and investment results may vary substantially over time.

General Economic Conditions and Recent Events. Various sectors of the global financial markets have been experiencing an extended period of adverse conditions. In recent years, market uncertainty in the United States has increased dramatically and adverse market conditions have expanded to other markets. These conditions have resulted in reduced liquidity, greater volatility, general widening of credit spreads and a lack of price transparency. These difficult global credit market conditions have adversely affected the market values of equity, fixed-income and other securities and these circumstances may continue or even deteriorate further. The short- and longer-term impact of these events is uncertain, but could have a material effect on general economic conditions, consumer and business confidence and market liquidity. Investments made by the portfolio funds are expected to be sensitive to the performance of the overall economy and any negative impact on economic fundamentals and consumer and business confidence would likely increase market volatility and reduce liquidity, both of which could have a material adverse effect on the performance of the portfolio funds and these or similar events may affect the ability of the portfolio funds to execute their investment strategies.

Legal Risks of Funds as Part of Larger Firm. The firm is part of Avenue Capital, a larger corporate structure with multiple business lines in multiple jurisdictions that are governed by a multitude of legal systems and regulatory regimes, some of which are new and evolving. As a result, the funds, the firm and/or their respective affiliates are subject to a number of unusual risks, including changing laws and regulations, developing interpretations of such laws and regulations and increased scrutiny by regulators. Some of this evolution may result in scrutiny or claims against the funds, the firm and/or their affiliates directly for actions taken or not taken by the funds, the firm and/or their affiliates. Thus, the funds, the firm and/or their respective affiliates face the continuing risk of pending and potential litigation and regulatory action. These risks are often difficult or impossible to predict, avoid or mitigate in advance. The effect on the funds, the firm or any affiliate of any such legal risk, litigation or regulatory action could be substantial and adverse.

Low Credit Quality Securities. The funds may invest in portfolio funds that may make particularly risky investments and may also offer the potential for correspondingly high returns. As a result, a portfolio fund may lose all or substantially all of its investment in any particular instance. In addition, there is no minimum credit standard that is a prerequisite to a portfolio fund's investment in any security. The debt securities in which a portfolio fund invests may be rated lower than investment grade and hence may be considered to be "junk bonds" or distressed securities.

Distressed Credits. The portfolio funds may invest in securities of U.S. and non-U.S. issuers 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. Investments of this type may involve substantial financial and business risks that can result in substantial or at times even total losses. 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. Such investments also may be adversely affected by U.S. state and federal laws relating

to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the U.S. bankruptcy courts' power to disallow, reduce, subordinate or disenfranchise particular claims.

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 ask prices of such securities may be greater than those prevailing in other securities markets. It may take a number of years for the market price of such securities to reflect their intrinsic value. In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (*i.e.*, until various liabilities, actual or contingent, have been satisfied), or will result in a distribution of cash or a new security, the value of which will be less than the purchase price paid by the portfolio fund of the security in respect to which such distribution was made.

Hedging Transactions. The portfolio funds may engage in hedging transactions. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio position should increase. Moreover, it may not be possible for the portfolio funds to hedge against an exchange rate, interest rate or security price fluctuation that is so generally anticipated that such portfolio fund is not able to enter into hedging transactions at a price sufficient to protect its assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations.

The portfolio funds are not required to attempt to hedge portfolio positions and, for various reasons, may determine not to do so. Furthermore, success is also dependent upon the portfolio funds' ability to correctly predict movements in the direction of currency and interest rates. Therefore, while a portfolio fund may enter into such transactions to seek to reduce risks, such transactions may result in a poorer overall performance for such portfolio funds than if it had not engaged in any such hedging transaction. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged may vary.

Moreover, for a variety of reasons, the portfolio funds may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the portfolio funds' holdings. Moreover, it should be noted that a portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties), liquidity risk and "widening" risk.

In connection with a hedging transaction, the portfolio funds' may be required to allocate funds or provide a credit line to be used as collateral for the margin capital of the hedge. Such a requirement would tie up a portion of the portfolio funds' capital that could otherwise have been available for investment. This could cause a portfolio fund to be less invested in its core investment strategy than it would have been absent such hedging transaction, and could possibly result in an adverse effect on the overall returns of the portfolio funds.

Furthermore, the portfolio funds' ability to enter into hedging transactions may be limited by their compliance with CFTC Rule 4.13(a)(3)'s "de minimis" requirements with respect to the portfolio funds' commodity interest positions.

Stock Index Options. The portfolio funds may purchase and sell call and put options on stock indices listed on exchanges or traded in the over-the-counter market for the purpose of realizing its investment objective or for the purpose of hedging its portfolio. Successful use by a portfolio fund of options on

stock indices is subject to the portfolio fund's ability to correctly predict movements in the direction of a relevant stock market generally or of a particular industry or market segment. This requires different skills and techniques than predicting changes in the price of individual stocks.

Options Trading. Options trading involves certain additional risks. Specific market movements of the option and the instruments underlying an option cannot be predicted. No assurance can be given that a liquid offset market will exist for any particular option or at any particular time. If no liquid offset market exists, a portfolio fund might not be able to effect an offsetting transaction in a particular option. To realize any profit in the case of an option, therefore, the option holder would need to exercise the option and comply with margin requirements for the underlying instrument. A writer could not terminate the obligation until the option expired or the writer was assigned an exercise notice. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option is subject to the risk of loss resulting from the difference between the premium received for the option and the price of the futures contract underlying the option that the writer must purchase or deliver upon exercise of the option. The writer of a naked option may have to purchase the underlying contract in the market for substantially more than the exercise price of the option in order to satisfy his delivery obligations. This could result in a large net loss.

Use of Swap Agreements. The portfolio funds may use equity, interest rate, index and currency swap agreements. Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than one year. In a standard swap transaction, two parties agree to exchange the returns earned on specified assets, such as the return on, or increase in value of, a particular dollar amount invested at a particular interest rate, in a particular foreign currency, or in a "basket" of securities representing a particular index. The use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary securities transactions. Interest rate swaps, for example, do not typically involve the delivery of securities, other underlying assets or principal. Accordingly, the market risk of loss with respect to an interest rate swap is often limited to the amount of interest payments that the portfolio fund is contractually obliged to make on a net basis.

There are risks relating to the financial soundness and creditworthiness of the counterparty to swap agreements. If the other party to an interest rate swap defaults, the portfolio fund's risk of credit loss may be the amount of interest payments that the portfolio fund is contractually obliged to receive on a net basis. However, where swap agreements require one party's payments to be "up-front" and timed differently than the other party's payments (such as is often the case with currency swaps), the entire principal value of the swap may be subject to the risk that the other party to the swap will default on its contractual delivery obligations. If there is a default by the counterparty, the portfolio fund may have contractual remedies pursuant to the agreements related to the transaction. The swap market has grown substantially in recent years, and has become relatively more liquid, with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. The investment performance of the portfolio fund, however, may be adversely affected by the use of swaps if the portfolio fund's forecasts of market values, interest rates or currency exchange rates are inaccurate.

Transactions in certain derivatives are subject to clearance on a U.S. national exchange and to regulatory oversight. In addition, market developments related to swaps have prompted increased scrutiny with respect to these instruments. As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and the European Union Regulation No 648/2012 on OTC derivatives, central counterparties and trade repositories (also known as the European Market Infrastructure Regulation, or "EMIR"), swaps are subject to increased regulation. Such regulation could significantly increase the cost of derivative contracts (including through requirements to post collateral which could

adversely affect a client's available liquidity), materially alter the terms of derivative contracts, reduce the availability or desirability of derivatives, reduce the ability to monetize or restructure existing derivative contracts, and increase a client's exposure to less creditworthy counterparties. In particular, the Dodd-Frank Act amendments to the Advisers Act require a large proportion of transactions in the derivatives markets to be conducted on a swap execution facility. The impact of the swap execution facilities on transaction liquidity and pricing cannot be determined at this time. Currently, the clearing mandate applies to certain interest rate and credit index swaps. Swaps that are not cleared through registered clearinghouses are potentially subject to regulations including increased mandatory margin requirements without the benefit of protections afforded to participants in cleared swaps (for example, centralized counterparty, guaranteed funds and customer asset segregation). Price movements of 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, a client's assets are also subject to the risk of the failure of any of the exchanges on which its positions trade or of its clearinghouses or counterparties.

In addition, there is no assurance that the portfolio funds themselves will not be determined to be a regulated market participant or otherwise become subject to new entity-level regulation as a result of the Dodd-Frank Act. Such additional regulation could lead to significant new costs which could materially adversely affect the performance of the portfolio funds.

EMIR requires all counterparties to derivatives to report all derivative contracts (OTC and exchange traded) to a trade repository. The reporting obligation applies separately to each applicable counterparty but may be delegated. Reporting to a trade repository requires a significant amount of preparation and resources, such as selecting and registering with a trade repository and putting in place internal systems to enable reporting of derivative contracts. It is difficult to predict the precise impact of EMIR on the funds. The firm will monitor the position and react appropriately. However, prospective investors should be aware that the regulatory changes arising from EMIR may in due course adversely affect the funds' ability to adhere to its investment strategy and achieve its investment objective.

Counterparty Risk. Some of the markets in which the portfolio funds may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the portfolio funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions 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 portfolio fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the portfolio fund has concentrated its transactions with a single or small group of counterparties. The portfolio funds may not be restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, a portfolio fund's internal counterparty review process, which evaluates the creditworthiness of its counterparties may prove insufficient. The lack of a complete and "foolproof" evaluation of the financial capabilities of the portfolio funds' counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the portfolio funds and, therefore, by the funds.

Cyber Security Risks. 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 funds and their services 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, a fund, a general partner, the firm, a fund's custodian and/or other third party service providers may adversely impact a fund or the investors. For instance, cyber-attacks may interfere with the processing of investor transactions, impact a fund's ability to value its assets, cause the release of private investor information or confidential information of a fund, impede trading, cause reputational damage, and subject a fund to regulatory fines, penalties or financial losses, reimbursement or other compensation costs, and/or additional compliance costs. A fund may also incur substantial costs for cyber security risk management in order to prevent any cyber incidents in the future. A fund and the investors could be negatively impacted as a result. While a fund or a fund's 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 a fund invests, which could result in material adverse consequences for such issuers, and may cause a fund's investment therein to lose value.

Systemic Risk. Credit risk may also arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the portfolio funds interact on a daily basis.

Current Economic Conditions in European Countries. Certain European countries, including Greece, Ireland, Italy, Portugal and Spain, are currently experiencing varying degrees of financial distress. Risks from the debt crisis in Europe could result in a disruption of the financial markets which could have a detrimental impact on global economic conditions. Contagion fears have expanded to Spain and Italy, and credit spreads widened further in European peripheral countries and European banks. There remains considerable uncertainty as to future developments in the European debt crisis and the impact on global financial markets. A significant deterioration of the European debt crisis could result in material reductions in the value of sovereign debt and other asset classes, disruptions in capital markets, widening of credit spreads, loss of investor confidence in the financial services industry, a slowdown in global economic activity, and other adverse developments that could negatively impact the performance of the portfolio funds.

Leverage. The underlying portfolio funds may be able to borrow without limitation and may utilize various lines of credit and other forms of leverage, including swaps and repurchase agreements. While leverage presents opportunities for increasing a portfolio fund's total return, it has the effect of potentially increasing losses as well. If income and appreciation on investments made with borrowed funds are less than the required interest payments on the borrowings, the value of the portfolio fund will decrease. Additionally, any event that adversely affects the value of an investment by a portfolio fund would be magnified to the extent such portfolio fund is leveraged. The cumulative effect of the use of leverage by a portfolio fund in a market that moves adversely to such portfolio fund's investments could result in a substantial loss to the portfolio fund which would be greater than if the portfolio fund were not leveraged. In addition, leverage may be used by the funds in order to fund redemptions or for short term bridging purposes. Such leverage may be provided to the funds by the firm or its affiliates, or from unaffiliated third parties in each case, at prevailing market rates.

Illiquid Investments. Certain portfolio funds may make investments that are subject to legal or other restrictions on transfer or for which no liquid market exists such as private placements. A portfolio fund may co-invest in similar illiquid investments. The market prices, if any, of such investments tend to be more volatile and it may be impossible to sell such investments when desired or to realize their fair value

in the event of a sale. Moreover, securities in which portfolio funds may invest include those that are not listed on a stock exchange or traded in an over-the-counter market. As a result of the absence of a public trading market for these securities, they may be less liquid than publicly traded securities. There may be substantial delays in attempting to sell non-publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized from these sales could be less than those originally paid. Further, companies whose securities are not publicly traded are not registered or subject to the disclosure and other investor protection requirements that would be applicable if their securities were registered or publicly traded. In addition, the funds' investments in portfolio funds, or co-investments with portfolio funds, may also be subject to lock-up periods that differ from the funds' lockup periods, various withdrawal limits and fees and varying notice periods.

Corporate Debt Obligations. Certain portfolio funds may invest in corporate debt obligations and other forms of indebtedness, including commercial paper. Corporate debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations (credit risk).

Portfolio Fund Compensation. A portfolio fund typically provides for a performance fee or allocation to its manager or person serving in an equivalent capacity over and above a basic advisory fee. Performance fees or allocations could create an incentive for a portfolio fund manager to choose riskier or more speculative underlying investments than would otherwise be the case.

"Soft Dollar" Payments. In selecting brokers, banks and dealers to effect portfolio transactions, portfolio fund managers may consider such factors as price, the ability of the brokers, banks and dealers to effect transactions, their facilities, reliability, and financial responsibility, as well as any products or services provided, or expenses paid, by such brokers, banks, and dealers. Products and services may include research items used by the portfolio fund manager in making investment decisions, and any other lawful expenses of the portfolio fund manager. Such "soft dollar" benefits may cause a portfolio fund manager to execute a transaction with a specific broker, bank or dealer even though it may not offer the lowest transaction fees. Any such soft dollar benefits may or may not fall within the "safe harbor" of Section 28(e) of the United States Securities Exchange Act of 1934, as amended.

Highly Volatile Markets. The prices of a fund's investments including, without limitation, commodities contracts, all derivative instruments, futures and options are highly volatile. Price movements of forward contracts, futures contracts, and other derivative contracts in which portfolio funds may invest 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 U.S. 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 interest rate related futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. Portfolio funds are also subject to the risk of the failure of any of the exchanges on which their positions trade or failure of their clearinghouses.

Forward Trading. Portfolio funds may engage in forward trading. Forward contracts and options thereon, unlike futures contracts, 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 and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. 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 been unable 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 traded by the portfolio funds due to unusually high trading volume, political intervention or other factors. Market illiquidity or disruption could result in major losses to a portfolio fund.

Concentration. Some of the portfolio funds in which the funds invest may concentrate their investments in only a few securities, industries or countries. Therefore, despite the dynamic portfolio composition of its underlying portfolio funds, the funds' overall portfolios may exhibit unbalanced or excessive investment biases from time to time. For instance, underlying portfolio funds may have collectively increased exposure to a certain geographic region or currency or an asset class that overstates the funds' view or exceeds value-at-risk parameters. Although the funds' overall investments may be diversified, concentration by individual portfolio funds may cause a proportionately greater loss than if their investments had been spread over a larger number of investments. In addition, concentration of the funds' investments in a limited number of portfolio funds may also cause a proportionately greater loss than if the funds' investments had been spread over a larger number of portfolio funds.

Significant Positions. Portfolio funds could have a relatively small aggregate number of outstanding shares, so that the portfolio fund may acquire (i) more than 5% of a class of securities of a single issuer which would require the filing of a Schedule 13D or 13G statement with the SEC or (ii) more than 10% of a class of securities of a single issuer (which would impose certain limitations on the ability of the portfolio fund manager to trade in such securities, including the restrictions of Section 16 of the U.S. Securities Exchange Act of 1934, as amended). The accumulation of such a significant position in the shares of a single issuer could lead to litigation or disputes in the event the portfolio fund desires to influence the issuer. The portfolio fund may also seek to challenge the management of a portfolio company through a proxy contest. Such litigation or proxy contest may result in substantial expense to the portfolio fund, thus reducing the value of a fund's investment in that portfolio fund. In addition, the portfolio fund manager may serve on the board of directors of one or more portfolio companies. As a result, such portfolio fund manager would become an insider and may have access to material non-public information affecting the portfolio company, which may preclude the portfolio fund from selling its position (or acquiring additional shares) at any time when the portfolio fund manager otherwise believes it would be appropriate to do so. Moreover, a portfolio fund's ability to realize value from certain of its investments may depend upon the ability of the portfolio fund manager to influence the management of a portfolio company to take certain actions, including, for example, a recapitalization, restructuring, spin off, sale of the business or change in management. If the portfolio fund is incorrect in its assessment of the impact such action will have on the value of a portfolio company, or if it is unsuccessful in persuading the portfolio company's management to take the desired action, the portfolio fund may sustain a loss on its investment in the portfolio company, resulting in a reduction of the value of the applicable fund's investment in the portfolio fund.

Turnover. The funds' activities involve investment in the portfolio funds, which may invest on the basis of certain short-term market considerations. The turnover rate within the portfolio funds may be significant, potentially involving substantial brokerage commissions, fees and other transaction costs. The funds have no control over this turnover. In addition, the withdrawal of a fund from a portfolio fund or termination of a separately managed account relationship could also involve expense to the fund under the terms of the fund's investment.

Reliability of Valuations. A fund's interest in a portfolio fund is valued at an amount equal to the fund's shares or capital account in the limited partnership or other entity that issued such interest. The funds generally relies on valuations provided to them by the portfolio fund managers of the portfolio funds. As a general matter, the governing instruments of the portfolio funds in which the funds invest provide that any securities or investments that are illiquid, not traded on an exchange or in an established market or for which no value can be readily determined, are assigned such fair value as the respective portfolio fund

managers may determine in their judgment based on various factors. Such factors include, but are not limited to, aggregate dealer quotes or independent appraisals. Such valuations may not be indicative of what actual fair value would be in an active, liquid or established market.

Availability of Information. Some of the portfolio funds may provide very limited information with respect to their operation and performance to the funds, thereby severely limiting the funds' ability to verify initially or on a continuing basis any representations made by the portfolio funds or the investment strategies being employed. This may result in significant losses to a fund based on investment strategies and positions employed by the portfolio funds or other actions of which the firm has limited or no knowledge.

Fraud. Instances of fraud and other deceptive practices committed by senior management of portfolio funds in which the funds invest may undermine our due diligence efforts with respect to such portfolio funds, and if such fraud is discovered, negatively affect the valuation of the funds' investments. In addition, when discovered, financial fraud may contribute to overall market volatility, which can negatively impact the funds' investment programs.

Momentum Investing Strategy. Some of the portfolio funds in which the funds invest have portfolio fund managers whose investment strategies emphasize primarily "momentum investing". "Momentum investing" may not be based on fundamental economic analysis of companies or macro- or microeconomic analysis, but rather only on price movements, which may increase risk of loss, and should therefore be viewed as highly speculative. Since only a limited number of securities may be exhibiting significant momentum at any one time, the beneficial effects of diversification among portfolio fund managers may be significantly reduced if any of the underlying investment pools invest in the same securities at the same time. As the funds do not control the investment decisions of the portfolio funds, the firm has no way of preventing this situation from occurring.

Proprietary Investment Strategies. Portfolio funds may use proprietary investment strategies that are based on considerations and factors that are not fully disclosed to the firm or the funds. These strategies may involve risks under some market conditions that are not anticipated by the firm or the funds. The portfolio funds generally use investment strategies that are different than those typically employed by traditional managers of portfolios of stocks and bonds. The investment niche, arbitrage opportunity or market inefficiency exploited by a portfolio fund may become less profitable over time as the portfolio funds and competing asset managers or investors manage a larger group of assets in the same or similar manner (tending to arbitrage away the profit opportunities), or market conditions change. The strategies employed by the portfolio funds may involve significantly more risk and higher transaction costs than more traditional investment methods. It is possible that the performance of the portfolio funds may be closely correlated in some market conditions, resulting (if those returns are negative) in significant losses to the funds and investors.

Short Selling. A short sale involves the sale of a security that a portfolio fund does not own in the hope of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, the portfolio fund must borrow the security, and is obligated to replace the security to the lender which is accomplished by a later purchase of the security. The portfolio fund realizes a profit or a loss as a result of a short sale if the price of the security decreases or increases between the date of the short sale and the date on which the portfolio fund covers its short position, (*e.g.*, purchases the security to replace the borrowed security). Certain market participants could accumulate such securities in a "short squeeze", which would reduce the available supply, and thus increase the cost of such securities. A short sale involves the theoretically unlimited risk of an increase in the market price of the security that would result in a theoretically unlimited loss. The extent to which a portfolio fund engages in short sales will depend upon its investment strategy and perception of market direction. There

can be no assurance that the securities necessary to cover a short position will be available for purchase at the time a portfolio fund desires to close out of such short position. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

In response to dislocations in the financial services industry and other market events, securities regulators of many jurisdictions have implemented certain restrictions and disclosure requirements with respect to short selling of securities and may impose additional restrictions in the future. The restrictions on, and disclosures of, the portfolio funds' short sales could have an adverse impact on the markets and investments in which the funds transact.

Co-Investments. In certain situations, portfolio fund managers may offer a fund an opportunity to make direct co-investments alongside portfolio funds. These opportunities may arise from contractual obligations for the benefit of the relevant fund in the fund agreements or otherwise as an investor in a portfolio fund. Co-investments are likely to be subject to lock-up or other contractual provisions that would prevent sales of such investments, except in limited circumstances that may not be in the relevant fund's control. The fund's inability to exercise control over co-investments may have an adverse impact on its liquidity and cash flow.

When a fund makes a co-investment with a portfolio fund manager, the firm will generally have limited access to information and may not undertake the same level of due diligence conducted by the portfolio fund manager that is making the primary investment. To the extent that a fund makes a co-investment that loses some or all of its value, the effect of the decline may be magnified, because the fund may have exposure both at the level of its co-investment and at the portfolio fund level.

A fund may make a co-investment in a portfolio fund with financial, strategic or other third party investors. Such investments will involve additional risks not present in investments where a third party is not involved, including the possibility that the co-investor may have interests or objectives that are inconsistent with those of the fund or may be in a position to take action contrary to the fund's investment objectives. A fund may in certain circumstances also be liable for actions of its third party co-ventures or partners. In addition, the fund's ability to exercise control or significant influence in connection with these arrangements may be limited and will depend on the nature of the relevant documentation.

Commodities. Commodity futures markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. In addition, because of the low margin deposits normally required in commodity futures trading, a high degree of leverage is typical of a commodity futures trading account. As a result, a relatively small price movement in a commodity futures contract may result in substantial losses to the trader. Moreover, commodity futures positions are marked to market each day and variation margin payments must be paid to or by a trader. To the extent that principal transactions are engaged in, including, but not limited to, swaps, forward foreign currency transactions and bonds, the investor must rely on the creditworthiness of a counterparty. Commodity futures trading may also be illiquid, and certain commodity exchanges do not permit trading in particular commodities at prices that represent a fluctuation in price during a single day's trading beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits – which conditions have in the past sometimes lasted for several days with respect to certain contracts – a portfolio fund could be prevented from promptly liquidating unfavorable positions and thus be subjected to substantial losses. In addition, the CFTC and various exchanges impose speculative position limits on the number of positions that an investor may indirectly hold or control in particular commodities.

U.S. Government Securities. Certain portfolio funds may invest in U.S. government securities. Generally, these securities include U.S. Treasury obligations and obligations issued or guaranteed by U.S. government agencies, instrumentalities or sponsored enterprises. U.S. government securities also include

Treasury receipts and other stripped U.S. government securities, where the interest and principal components of stripped U.S. government securities are traded independently. These securities are subject to market and interest rate risk. A portfolio fund may also invest in zero coupon U.S. Treasury securities and in zero coupon securities issued by financial institutions, which represent a proportionate interest in underlying U.S. Treasury securities. A zero coupon security pays no interest to its holder during its life, and its value consists of the difference between its face value at maturity and its cost. The market prices of zero coupon securities generally are more volatile than the market prices of securities that pay interest periodically.

Non-U.S. Investments. Investments outside the United States or denominated in non-U.S. currencies pose currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks that could include, depending on the country involved, expropriation, confiscatory taxation, political or social instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding non-U.S. issuers and non-U.S. companies which may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies. Further, non-U.S. securities markets may not be as liquid as U.S. markets. Transaction costs of investing outside the U.S. are generally higher than in the U.S. Higher costs result because of the cost of converting a non-U.S. currency to dollars, the payment of fixed brokerage commissions on some non-U.S. exchanges and the imposition of transfer taxes or transaction charges by non-U.S. exchanges. There is generally less government supervision and regulation of non-U.S. exchanges, brokers and issuers than there is in the U.S. and there is greater difficulty in taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures that in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the funds' performance.

Emerging Market Investments. The portfolio funds may invest in securities, including debt securities, of companies based in emerging markets or issued by the governments of such countries. Investing in securities of emerging countries and companies involves certain considerations not usually associated with investing in securities of developed countries or of companies located in developed countries, including political and economic considerations, such as greater risks of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, limitations on the removal of funds, nationalization and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; or certain government policies that may restrict a portfolio fund's investment opportunities and problems that may arise in connection with the clearance and settlement of trades. In addition, accounting and financial reporting standards that prevail in certain of such countries generally are not equivalent to standards in more developed countries and, consequently, less information is available to investors in companies located in these countries than is available to investors in companies located in more developed countries. Further, emerging market debt securities are unrated or rated in lower rating categories by the various credit rating agencies. These securities are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally subject to greater risk than securities with higher credit ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with lower-rated securities, the yields or prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for emerging market debt securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which securities are sold. In addition, adverse publicity and investor perceptions about emerging market debt securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the

value and liquidity of such securities. The sovereign debt obligations in which the portfolio funds may invest in many cases pertain to countries that are among the world's largest debtors to commercial banks, non-U.S. governments, international financial organizations and other financial institutions. In recent years, the governments of some of these countries have encountered difficulties in servicing their external debt obligations, which led to defaults on certain obligations and the restructuring of certain indebtedness.

Other Trading Strategies. Certain of the portfolio funds employ strategies for which no specific "risk factors" are provided. Nevertheless, such strategies should be considered to be speculative, volatile and, in general, no less risky than other strategies more fully described herein.

Item 9. Disciplinary Information

This Item is not applicable to us.

Item 10. Other Financial Industry Activities and Affiliations

Material Financial Industry Affiliations of the Firm

The firm currently has direct relationships with the following private funds:

- Avenue Strategic Partners, L.P.
- Avenue Strategic Partners Feeder, Ltd.
- Avenue Strategic Partners, Ltd.
- 12th Avenue Employee Participation Plan, LLC

The private funds managed by the firm expect to undergo a final distribution of all of their assets to their respective investors in mid-2016, except for a minimal holdback for purposes of liquidating the funds. As a result, the private funds are no longer active and have no material business purpose. The firm expects to wind down and terminate these entities.

Through affiliated entities, the firm currently has indirect relationships with the following additional private funds:

- Avenue-ASRS Europe Opportunities Fund, L.P.
- Avenue Europe International, Ltd.
- Avenue Europe International Master, L.P.
- Avenue Europe Investments, L.P.
- Avenue Europe Select Opportunities Fund, L.P.
- Avenue Europe Special Situations Fund II (Euro), L.P.
- Avenue Europe Special Situations Fund II (Euro-Feeder), L.P.
- Avenue Europe Special Situations Fund II (U.S.), L.P.
- Avenue Europe Special Situations Fund III (Euro), L.P.
- Avenue Europe Special Situations Fund III (U.S.), L.P.

- Avenue Europe Special Situations Fund, L.P.
- Avenue Europe Special Situations Fund (Parallel), L.P.
- Avenue Europe Special Situations Fund (Parallel II), L.P.
- Avenue-SLP European Opportunities Fund, L.P.
- Avenue Europe Opportunities Fund, L.P.
- Avenue Europe Opportunities Fund, Ltd.
- Avenue Europe Opportunities Intermediate Fund, L.P.
- Avenue Europe Opportunities Master Fund, L.P.
- Avenue Europe Private Opportunities Fund, L.P.
- Avenue Europe Private Opportunities Co-Investment Fund, L.P.
- Avenue Europe Capital Solutions Fund, L.P.
- Avenue Europe Capital Solutions Feeder, L.P.
- Avenue Europe Employee Participation Plan, LLC
- GL Europe Iberian SGR Cayman, Ltd.
- Avenue Europe Iberian Opportunity Fund, L.P.
- Avenue SGR Fund, L.P.
- Avenue Special Situations Fund IV, L.P.
- Avenue Special Situations Fund IV (Parallel), L.P.
- Avenue Special Situations Fund V, L.P.
- Avenue Special Situations Fund VI (A), L.P.
- Avenue Special Situations Fund VI (B-Feeder), L.P.
- Avenue Special Situations Fund VI (B), L.P.
- Avenue Special Situations Fund VI (C-Feeder), L.P.
- Avenue Special Situations Fund VI (C), L.P.
- Avenue Special Situations Fund VI (Master), L.P.
- Avenue Investments, L.P.
- Avenue International, Ltd.
- Avenue International Master, L.P.
- Avenue CLO Fund, Ltd.
- Avenue CLO II, Ltd.
- Avenue CLO III, Ltd.
- Avenue Real Estate Fund, L.P.
- Avenue Real Estate Fund (Parallel), L.P.

- Avenue-CDP Global Opportunities Fund, L.P.
- Avenue TC Fund, L.P.
- Avenue Blue TC Fund, L.P.
- Avenue Special Opportunities Fund I, L.P.
- Avenue Special Opportunities Co-Investment Fund I, L.P.
- Avenue Special Opportunities Fund II, L.P.
- Avenue Energy Opportunities Fund, L.P.
- Avenue Aviation Opportunities Fund, L.P.
- Avenue COPPERS Opportunities Fund, L.P.
- Avenue PPF Opportunities Fund, L.P.
- Avenue US/Europe Distressed Segregated Portfolio, a segregated portfolio of Avenue EnTrust Customized Portfolio SPC
- Avenue Gabriel Fund, L.P.
- Pecos Partners, L.P.
- Avenue Employee Participation Plan, LLC
- Avenue Real Estate Employee Participation Plan, LLC
- Lyxor/Avenue Opportunities Fund Limited
- MAGS Capital II, LLC
- Avenue Asia Special Situations Fund IV, L.P.
- Avenue Asia Employee Participation Plan, LLC

An affiliate of the firm, Avenue Capital Management II, L.P., serves as adviser to Avenue funds that are registered investment companies.

The firm also has relationships with the following entities that act as investment advisers:

- Avenue Capital Management II, L.P. (registered as an investment adviser with the SEC since 2000)
- Avenue Europe International Management, L.P. (registered as an investment adviser with the SEC since 2004)
- Avenue Asia Capital Management, L.P. (registered as an investment adviser with the SEC since 2001 and registered with the Securities and Exchange Board of India as a Foreign Institutional Investor since 2008)

The firm has relationships with the following entities (general partners or managing members (in accordance with the 2005 SEC Letter) of private funds that are advised by us):

- Avenue Strategic Partners Feeder GenPar, LLC
- Avenue Strategic Partners GenPar, LLC
- GL Avenue Employee Management, LLC

The firm has relationships with the following entities (general partners or managing members (in accordance with the 2005 SEC Letter) of private funds that are advised by our investment adviser affiliates and certain entities used to carry on the these affiliates' businesses):

- Avenue-ASRS Europe Opportunities Fund GenPar, LLC
- Avenue Capital Partners IV, LLC
- Avenue Capital Partners V, LLC
- Avenue Capital Partners VI, LLC
- Avenue International Master GenPar, LLC
- Avenue Partners, LLC
- Avenue Real Estate GenPar, LLC
- Avenue Global Opportunities Fund GenPar, LLC
- Avenue TC GenPar, LLC
- Avenue Blue TC GenPar, LLC
- Avenue SO Capital Partners I, LLC
- Avenue SO Capital Partners II, LLC
- Avenue Energy Opportunities Partners, LLC
- Avenue Aviation Opportunities Partners, LLC
- Avenue COPPERS Opportunities Fund GenPar, LLC
- Avenue PPF Opportunities Fund GenPar, LLC
- Avenue Gabriel GenPar, LLC
- Pecos Strategic Partners, LLC
- Avenue Asia Capital Partners IV, Ltd.
- Avenue Europe Capital Partners II, LLC
- Avenue Europe Capital Partners III, LLC
- Avenue Europe Capital Partners, LLC
- Avenue Europe International Master GenPar, Ltd.
- Avenue Europe Investments GenPar, LLC
- Avenue Europe Opportunities Fund GenPar, LLC
- Avenue Europe Select Opportunities Partners, LLC
- Avenue-SLP European Opportunities Fund GenPar, LLC
- Avenue EPO Partners, LLC
- Avenue Europe Capital Solutions Partners, LLC
- Avenue SGR GenPar, L.P.
- Avenue Europe Iberian Opportunity GenPar, L.P.

- Avenue Luxembourg S.A.R.L.

In addition, affiliates of the firm have relationships with the following entities (sub-advisers to private funds that are advised by the affiliate) that are their “relying advisers” (in accordance with the letter dated January 12, 2012 from the SEC’s Office of Investment Adviser Regulation, Division of Investment Management to the American Bar Association, Business Law Section):

- Avenue Europe Management, LLP (authorized by the U.K. Financial Conduct Authority, formerly known as the U.K. Financial Services Authority, since 2004)
- Avenue Germany Management GMBH
- Avenue Iberia Asesores, S.L.
- Avenue Italia Advisors S.r.l.
- Avenue Asia Services, LLC
- Avenue Asia Advisors Private Limited
- Avenue Asia Singapore Pte Ltd.
- Bo Yuan Jun He Consulting (Beijing) Co., Ltd.
- IH Services HK Limited
- GL Advisors Hong Kong Limited (holding a Type 9 (asset management) license with the Securities and Futures Commission of Hong Kong since August 2015)
- GL India Mauritius III Ltd. (registered with the Securities and Exchange Board of India as a Foreign Institutional Investor since 2008)
- GL Advisors Australia Pty. Ltd.
- MSM Luxembourg Sarl
- MSM Netherlands BV

In October 2006, Morgan Stanley became an indirect minority owner of Avenue. From time to time, certain funds may utilize Morgan Stanley for prime brokerage, consulting and other services.

A-III Manager LLC, which is owned fifty percent by Avenue Real Estate Management LLC (which in turn is owned by Marc Lasry) and fifty percent by a third party, serves as the external manager for ACRE Realty Investors Inc. (f/k/a Roberts Realty Investors, Inc.), a real estate investment and operating company. Additional information regarding ACRE Realty Investors Inc. can be found on ACRE’s website (<http://www.acrerealtyinvestors.com>) and/or the SEC’s EDGAR search engine (<http://www.sec.gov/edgar/searchedgar/companysearch.html>).

Avenue is affiliated with Boulevard Acquisition Sponsor II, LLC, the sponsor of a blank check company listed on the NASDAQ (BLVD) and formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses (*i.e.*, a special purpose acquisition company, or SPAC).

Avenue is also affiliated with Amroc Investments, LLC. Marc Lasry and Sonia Gardner, the Senior Principals of Avenue, own Amroc. As of January 1, 2008, all of Amroc’s employees became employees of Avenue entities and there are no commissions or other fees paid to Amroc for sourcing investments. We do not believe that the firm’s relationship with Amroc is material to our ongoing business activities.

A number of entities with which the firm is affiliated serve as the general partners of private funds whose investment programs are managed by the firm and/or by affiliates of the firm.

Other Activities

Except as otherwise set forth in a fund's offering documents, no Avenue person is obligated to devote any specific amount of time to the affairs of the funds. Avenue persons spend substantial time on other business activities, including those related to various existing and future pooled investment vehicles and other client accounts sponsored, formed, offered and managed by Avenue and its affiliates. See Item 8 under the heading "Methods of Analysis, Investment Strategies and risk of Loss – Risks Associated with the Firm's Investment Strategies - Other Activities."

Furthermore, the Senior Principals of Avenue, and other officers and employees of Avenue and its affiliates, may, from time to time, serve on the boards of directors, credit committees, or other committees, of one or more entities in which one or more of the Avenue funds has invested. In addition, certain Avenue persons may, from time to time, provide certain services to the firm, the funds, one or more of the firm's other affiliates, and/or one or more of the investments or companies in which the funds invest. As a result, there may be a number of conflicts of interest which may arise, which could adversely affect the funds. Please see the disclosure provided elsewhere in this brochure under Item 8 as well as in the offering documents of the applicable fund.

Avenue persons engage in a broad range of investment management activities, including sponsoring and managing other private funds and/or affiliated special purpose acquisition companies and other activities. Certain Avenue persons also expect to sponsor and operate future pooled investment vehicles and other client accounts that pursue similar investment objectives or other lines of investment activity. Although the relationships and activities of Avenue persons should enable these entities to offer attractive opportunities and services to the funds and investors, such relationships and activities, in the ordinary course of business, may also give rise to circumstances in which the interests of these entities and other affiliates of the Avenue persons conflict with the interests of the funds and investors, including, by way of example but not limitation, competition with other investment vehicles (proprietary or third-party managed) in which investors may also have an interest, purchasing and investments in entities in which investors may have an interest, or taking or advocating positions in certain transactions that may be considered adverse to the interests of investors.

The Avenue persons, the funds, the general partners of such funds (if applicable) or their respective members, officers, directors, employees, principals or affiliates may come into possession of material, non-public information. The possession of such information may limit the ability of the funds to buy or sell a security or otherwise to participate in an investment opportunity.

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

Code of Ethics; Personal Trading

We have adopted a written code of ethics that applies to the firm, our employees and certain related persons. Our code of ethics is administered by our Chief Compliance Officer or his designees. Employees are given training with respect to our code of ethics when they are hired and annually thereafter. Each client may obtain a copy of our code of ethics by submitting a written request to Eric Ross at 399 Park Avenue, 6th Floor, New York, New York 10022 or by contacting Mr. Ross at (212) 878-3500.

The following general principles and standards of conduct are established by our code of ethics:

- We must operate at the highest level of ethical standards in keeping with our fiduciary duties to clients, and in compliance with all applicable laws.
- We have a duty to place the interests of clients first and to address and/or mitigate conflicts of interest.
- Information about our operations and investment strategies, as well as information about investors in our funds and our managed account clients (other than, possibly, their name), unless otherwise consented to by the investor, is strictly confidential and will not be disclosed to anyone outside the firm and its consultants and agents, unless required by law or a government agency and upon prior notice to the Chief Compliance Officer.
- Our employees may not use any confidential information or otherwise take inappropriate advantage of their position for the purpose of furthering any private interest or as a means of making any personal gain.
- Our employees and their immediate families may not accept any benefit from a client, an investor in one or more of our funds or person who does business with us, except for normal business courtesies and non-cash gifts of nominal value, except as otherwise provided for by our code of ethics.
- Insider trading is prohibited and may expose an employee to stringent penalties.

Our code of ethics deals with a range of topics including, without limitation, the following:

- Categories of persons related to the firm who are covered by the code of ethics.
- Opening of personal securities accounts by covered persons.
- Pre-approval requirement for most personal securities transactions.
- Submission to the firm of information concerning personal securities holdings and transactions.
- Restrictions on trading in securities of particular issuers.
- Gifts, entertainment and investee company promotions (*i.e.*, any discounted or complimentary goods or services provided by an investee company to a firm employee, such as hotel rooms).
- Charitable contributions.
- Political contributions and payments.
- Reporting of violations and our whistle-blower policy.
- How the code of ethics is administered.
- How exceptions to the code of ethics may be granted by our Chief Compliance Officer.

Each covered person is required to acknowledge that he or she has received and reviewed, and understands the Code of Ethics.

Participation or Interest in Client Transactions

We do not presently intend to engage in principal transactions, but we do have the right to engage in such transactions and may do so in the future. During the most recent fiscal year, the firm did not engage in principal transactions.

A principal transaction occurs when an investment adviser, acting for its own account (or the account of an affiliate) buys a security from, or sells a security to, a client's account. An agency cross trade occurs when a person acts as an investment adviser in relation to a transaction in which such investment adviser, or any person controlling, controlled by, or under common control with such investment adviser, acts as broker for both such advisory client and for another person on the other side of the transaction. The funds have different procedures with respect to completing principal and agency cross transactions that are set forth in each fund's operative documents. Accordingly, the portfolio managers are required to identify any potential principal transaction, and any potential agency cross trade between two or more funds, prior to effecting the transaction and to contact the firm's Chief Compliance Officer. The Chief Compliance Officer, in consultation with outside counsel (if necessary), will determine whether or not the trade would constitute a principal transaction or an agency cross trade, and if so, whether such transaction is permissible and what procedures must be followed to complete the transaction. The firm has the right to cause the funds to engage in agency cross trades, including the purchase or acquisition of participations in originated investments for purposes of rebalancing the portfolios of the funds or for other reasons consistent with the investment and operating guidelines of the funds. These rebalancing transactions, if effected, may or may not be subject to commissions. It is our more customary policy to rebalance funds and accounts by trading in the market rather than by effecting agency cross trades.

The firm may, from time to time, recommend a security in which the firm, directly or indirectly, has an interest. For instance, it may be expected that one or more of the funds may invest capital in another of the funds or in securities of issuers in which one or more of the other funds hold positions. In addition, the general partners of certain of the funds have invested their own capital in their funds. Given the likely frequency of these occurrences, clients and investors in the funds will not be provided with notification of them. This may represent a conflict of interest for the firm.

We will not be engaged as an investment adviser to advise investors as to the appropriateness of investing in the funds we manage. Although we will not receive any compensation for selling interests in the funds, we will receive compensation in our capacity as manager of these funds based in part upon the amount invested in the funds. See Item 14 ("Client Referrals and Other Compensation – Compensation for Client Referrals; Placement of Agents for Funds").

Accounts that are beneficially owned by the firm's employees, principals and affiliates may from time to time transact in trade claims of distressed companies. These transactions will be subject to our personal account trading policy.

Item 12. Brokerage Practices

Selection of Brokers

While the firm has adopted policies and procedures regarding the selection of brokers in connection with investment transactions on behalf of its clients, as a manager of funds of funds, the firm does not typically select brokers. Investments by funds managed by the firm will be subject to the broker selection criteria applicable to the underlying portfolio funds.

Soft Dollar and Directed Brokerage Arrangements

While the firm has adopted research and brokerage policies, including “soft dollar” and directed brokerage policies and procedures, as a manager of funds of funds, the firm does not typically select brokers. Investments by funds managed by the firm will be subject to the research and brokerage policies applicable to the underlying portfolio funds.

We do not currently engage in soft dollar arrangements, but we reserve the right to do so in the future. Notwithstanding the foregoing, certain non-execution products and services may be provided by executing brokers, including, without limitation, research, corporate access, and capital introduction events. There is no expectation of order flow or any agreement to “pay up” for these products or services, however, and the firm does not believe that these constitute soft dollar items. To the extent that soft dollars are used, any products or services acquired using soft dollars will be consistent with Section 28(e) of the Exchange Act of 1934.

During the most recent fiscal year, the firm did not use any soft dollar items or engage in directed brokerage transactions.

Aggregation of Orders

While the firm has adopted policies regarding the aggregation of investment orders among its clients, as a manager of funds of funds, the firm does not typically place trades or aggregate orders. Investments by funds managed by the firm will be subject to the trade aggregation policies applicable to the underlying portfolio funds.

Allocation Procedures

While the firm has adopted procedures to allocate investment opportunities among its clients, investments by funds managed by the firm will be subject to the investment allocation policies applicable to the underlying portfolio funds.

We may form in the future one or more separate vehicles or accounts, including to make available opportunities to strategic and other investors, lenders and/or one or more investors or third-parties that are designed to invest with a fund directly or indirectly on a side-by-side basis (such clients, together with clients of the firm, are referred to as “Avenue clients”). The existence of such multiple vehicles and accounts would necessarily create a number of potential conflicts of interest. Notwithstanding the differences between and among a fund Avenue clients, there may be circumstances where some or all of the Avenue clients participate in an aggregated order where we believe it is in the best interest of all Avenue clients participating in such order. In all such instances, we will assess whether the investment should be allocated on a *pro rata* basis (based on available cash as determined by us or on a net asset basis) or other basis.

The firm will not always allocate aggregated orders among Avenue clients on a *pro rata* basis. There will be circumstances where:

- only some Avenue clients participate in the aggregated order;
- the level of participation between and among the Avenue clients in the aggregated order is not on a *pro rata* basis;
- investment transactions between and among the Avenue clients vary in other respects.

Such non-*pro rata* allocations of aggregated orders would be made in our discretion when deemed appropriate given the differences between and among the clients involved and/or otherwise to be in the best interests of the clients involved.

It is our general policy that no Avenue client will receive inappropriate preferential treatment or otherwise be treated unfairly; and we will seek to uphold such policy when making decisions regarding investment allocations.

Trade Errors

While the firm has adopted a policy for the purpose of addressing trade errors that may arise, from time to time, with respect to the securities transactions, as a manager of funds of funds, the firm does not typically place trades. Investments by funds managed by the firm will be subject to the trade error policies applicable to the underlying portfolio funds.

Item 13. Review of Accounts

Each fund is maintained, supervised and reviewed on a regular basis by its respective investment principles. Matters reviewed include specific investments held, the percentage of assets in various types of asset classes and the relative and absolute performance of each account. The investment principles for each Avenue fund are listed in that fund's confidential offering memorandum.

With respect to the private funds for which the firm serves as the investment manager, each investor receives annual audited financial statements of each such fund. In addition, investors in the private funds receive additional financial statements and reports as described in the confidential offering memorandum for each private fund.

With respect to other clients for whom we serve as the investment manager on a managed account or sub-advisory basis, we will provide such clients with reports and statements, the content and frequency of which will be as agreed.

Item 14. Client Referrals and Other Compensation

Compensation for Client Referrals; Placement Agents for Funds

The firm may retain the services of one or more placement agents in connection with the solicitation of prospective investors. The firm has retained Hightower Securities, LLC, Morgan Stanley & Co., Jefferies & Company, Inc. and, in certain cases, one or more affiliates of these entities, as placement agents. Typically, placement agents retained by the firm are paid a fee based upon a percentage of the investor's investment or of the firm's management fee. These fees are borne by the firm. If an investor that is placed with the firm by one of the placement agents we have retained has a brokerage or other relationship with that placement agent, that investor may pay additional fees to the placement agent if the terms of its relationship with the placement agent so provide. To the extent applicable, solicitations of prospective managed clients are made in accordance with SEC Rule 206(4)-3 adopted under the Advisers Act.

Item 15. Custody

We have custody, as defined in Rule 206(4)-2 under the Advisers Act, of the assets of the private funds as a result of the service of certain of our affiliates as general partners of some of the private funds we manage and our ability to remove the independent directors of some of the private funds we manage. The private funds are audited annually and deliver audited financial statements to their investors within 180 days' of the applicable fiscal year-end.

Item 16. Investment Discretion

Item 4 includes a description of the investment discretion that we exercise.

Item 17. Voting Client Securities

While the firm has policies and procedures in place for the voting of proxies and processing of corporate actions on behalf of the funds we advise. The proxy policy is designed to ensure compliance with the proxy voting, disclosure and record keeping requirements under SEC Rules 206(4)-6 and 204-2 adopted under the Advisers Act, as a manager of funds of funds, the firm is not typically in a position to vote proxies. Investments by funds managed by the firm generally will be subject to the proxy voting policies applicable to the underlying portfolio funds.

With respect to the firm, our policies and procedures are also designed to ensure that all proxy and corporate action proposals are thoroughly reviewed voted in the best interest of each fund, provide disclosure to fund investors and ensure that certain documentation is retained. As a general matter, clients may not direct our vote in a particular solicitation.

The firm's objective is to ensure that its proxy voting and corporate action activities on behalf of the funds are conducted in a manner consistent, under all circumstances, with the best interest of the funds.

Proxy Voting

With respect to certain proxy proposal issues, we vote in accordance with predetermined "for" or "against" designations, except when we determine the best interests of the client require a contrary vote. We vote other proxy proposals on a "case by case" analysis in the best interests of the client.

In the event that the firm votes contrary to the proxy voting guidelines, we will document the basis for our contrary voting decision.

In addition, the firm may choose not to vote proxies in certain situations or for certain funds, such as (i) where a fund has informed the firm that it wishes to retain the right to vote the proxy, (ii) where the firm deems the cost of voting would exceed any anticipated benefit to the fund, (iii) where the proxy is received for a fund that has been terminated, or (iv) where a proxy is received by the firm for a security it no longer manages on behalf of a fund. The firm will document the basis for the decision not to vote.

We may be subject to conflicts of interest in the voting of proxies. If at any time the firm becomes aware of an actual conflict of interest relating to a particular proxy proposal, the firm will handle the proposal as follows:

- If the proposal is designated in the proxy voting policies as “For” or “Against,” the proposal will be voted by the firm in accordance with the proxy voting policies; or
- If the proposal is designated in the proxy voting policies above as “Case by Case” (or not addressed in the proxy voting policies), if it is clear how to vote in the best interest of the funds entitled to vote then the vote may proceed, otherwise, Avenue’s Conflicts Committee will attempt to resolve the conflict of interest and will seek to resolve the conflict pursuant to the procedures set forth in “Conflict Resolution in Proxy Voting and Corporate Actions” below.

Corporate Actions

Avenue has adopted procedures to address and, in some cases, mitigate the conflicts of interest that may arise with respect to corporate actions and proxy voting where multiple funds hold different securities of the same issuer. In cases where either a specific right, such as a vote with respect to a security or the grant of a waiver, or an ongoing right, such as an opportunity to serve on a creditor’s committee or otherwise engage in discussions with an issuer, arises, and Avenue does not identify a conflict of interest, the following procedures will apply:

- Avenue will be responsible for determining whether the course of action that is in the best interest of the relevant fund is clear;
- Avenue will exercise the right or ongoing right in the best interest of the relevant fund(s); and
- The Chief Compliance Officer will be notified prior to the exercise of the right.

Conflict Resolution in Proxy Voting and Corporate Actions

If Avenue identifies a conflict of interest with respect to corporate actions and proxy voting where multiple funds hold different securities of the same issuer, then Avenue will notify the Chief Compliance Officer and convene its Conflicts Committee to attempt to resolve the conflict. If the Conflicts Committee cannot do so, Avenue will follow the procedures set forth in each fund’s organizational documents. The funds’ organizational documents generally provide that an advisory committee established by the fund or independent representative appointed to handle such matters or, if permitted under the fund’s organizational documents, an independent third-party, may vote on behalf of the fund.

Each investor in a private fund may obtain a copy of our firm’s proxy voting policies and procedures by submitting a written request to Eric Ross at 399 Park Avenue, 6th Floor, New York, New York 10022 or by contacting Mr. Ross at 212-878-3500.

Item 18. Financial Information

We do not require or solicit prepayment of more than \$1,200 in fees from the funds, six months or more in advance, and therefore are not required to include a balance sheet for our most recent fiscal year.