

CANDLEWOOD INVESTMENT GROUP, LP

**777 Third Avenue, Suite 19B
New York, New York
10017
(212) 493-4495
www.candlewoodgroup.com**

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This brochure provides information about the qualifications and business practices of Candlewood Investment Group, LP (“Candlewood”). If you have any questions about the contents of this brochure, please contact us at (212) 493-4495. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Candlewood also is available on the SEC’s website at www.adviserinfo.sec.gov.

REGISTRATION WITH THE SEC AS AN INVESTMENT ADVISER DOES NOT IMPLY THAT CANDLEWOOD OR ANY PRINCIPALS OR EMPLOYEES OF CANDLEWOOD POSSESS A PARTICULAR LEVEL OF SKILL OR TRAINING IN THE INVESTMENT ADVISORY OR ANY OTHER BUSINESS.

Material Changes

On July 28, 2010, the United States Securities and Exchange Commission adopted a new form of disclosure document that must be provided to our clients. This Brochure is a new document prepared to comply with the new rules. As a result, this Brochure is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will include a summary of material changes made to this brochure since our last filing.

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Advisory Business

The Candlewood portfolio management team has worked together since 2004, initially for certain wholly-owned subsidiaries of Credit Suisse Group AG. Candlewood was formed as a Delaware limited partnership in 2010 to succeed to the business of those subsidiaries. The principal owners of Candlewood are Michael Lau and David Koenig.

Candlewood provides investment management services to eight private pooled investment vehicles (the “Candlewood Funds”) that are offered to investors on a private placement basis. The investment vehicles are structured as Delaware and Cayman Islands exempted limited partnerships, and Cayman Islands exempted companies. In connection with providing these investment management services, Candlewood has been appointed as the investment manager with discretionary trading authorization. A related person of Candlewood generally acts as general partner or manager of each Candlewood Fund, and Candlewood generally acts as investment manager of each Candlewood Fund.

Candlewood also serves as discretionary investment adviser or sub-adviser for the structured credit portion of certain separate accounts (the “Managed Accounts”) with full power and authority to supervise and direct the investments for the Managed Accounts without prior consultation with clients. Candlewood may advise other clients in the future.

Candlewood employs multiple strategies on behalf of the Candlewood Funds, including, but not limited to, distressed debt, event-driven, value equity, relative value, capital structure arbitrage, current income and structured credit strategies.

The Candlewood Funds maintain certain individual position and industry limits, calculated at the time an investment is made, based on aggregate net asset value. Due to the significant investment of certain financial institutions in certain of the Candlewood Funds, as described below under “Other Financial Industry Activities and Affiliations”, there are additional limitations that may restrict the investment strategy of the Candlewood Funds from time to time for as long as such financial institutions maintain such investments.

Investors and prospective investors in each Candlewood Fund should refer to the confidential private placement memorandum, limited partnership agreement and other governing documents for each Candlewood Fund (the “Governing Documents”) for complete information on the investment objectives and investment restrictions with respect to a particular Candlewood Fund. There is no assurance that any of the Candlewood Funds’ investment objectives will be achieved.

Candlewood manages all assets on a discretionary basis, and as of December 31, 2010, the amount of assets Candlewood managed \$837.5 million.

Fees and Compensation

Compensation and Fee Schedules

The fees applicable to each Candlewood Fund are set forth in detail in each Candlewood Fund's Governing Documents. A brief summary of those fees is provided below.

Investors in the Candlewood Funds generally pay a management fee to Candlewood (the "Management Fee") that accrues monthly and is payable quarterly in arrears, equal to an annual rate between 1.5% and 2.0% of net assets. Generally, at the end of each fiscal year, each investor in the Candlewood Funds also pays an annual performance allocation to an affiliate of Candlewood, equal to 20% of the amount by which the net value of each account as of the end of each calendar year exceeds the net value of the account as of the beginning of the year, subject to a "high water mark" (the "Incentive Allocation").

Candlewood (or its affiliate) may, in its sole discretion, reduce, waive or calculate differently the Management Fee or the Incentive Allocation with respect to certain investors, including members, partners, directors, officers, affiliates or employees of Candlewood, its affiliates or the Funds, or such person's family members and trusts or other entities established for the benefit of such person or his or her family.

All fees for Managed Accounts are subject to negotiation and established pursuant to each account's investment management agreement.

Candlewood may enter into "side letters" or similar agreements with certain investors in the Candlewood Funds, granting such investors specific rights, benefits, or privileges that are not made available to investors generally.

Deduction of Fees

Candlewood is authorized under the Governing Documents to charge and deduct advisory fees directly from the assets of the Candlewood Funds, at the times and in the amounts described above. Candlewood also receives sub-advisory fees from the investment adviser to the Managed Accounts, as specified in the relevant investment management agreement governing such relationship.

Other Fees and Expenses

In addition to the fees payable to Candlewood, the Candlewood Funds pay for all costs and expenses incurred in connection with the investments in their accounts, including (but not limited to) brokerage commissions, clearing and settlement charges, custodial fees, interest expenses, expenses relating to consultants, attorneys, brokers or other professionals or advisers who provide research, advice, proxy voting services or due diligence services with regard to investments, research related expenses, appraisal fees and expenses, and investment banking expenses, portfolio valuation and pricing services, legal expenses, accounting, audit, tax preparation and other tax related expenses, entity-level taxes, expenses related to obtaining insurance for the directors and officers of the

general partner (if applicable to the particular Candlewood Fund), organizational and offering expenses, and administration fees and related costs, as described in greater detail in the Governing Documents for each Candlewood Fund.

The Managed Accounts also pay expenses related to their investment activities, as described in each Managed Account's investment management agreement.

The section below titled "Brokerage Practices" describes the factors Candlewood considers in selecting or recommending broker-dealers and determining the reasonableness of their compensation.

Timing of Payments

Advisory fee payments are generally due quarterly, either in arrears or in advance. Please refer to the Governing Documents of each Candlewood Fund for more complete information on the timing of advisory fee payments.

Transaction-Based Compensation

Neither Candlewood nor its supervised persons will receive any compensation with respect to the purchase or sale of securities or other investment products by any client, including any Candlewood Fund.

Performance-Based Fees and Side-by-Side Management

Performance-Based Fees

A related person of Candlewood, as general partner of certain Candlewood Funds, will receive an annual special allocation of profits as of the end of each calendar year calculated and charged based on a share of the net appreciation of the assets of such Candlewood Funds during such year. Please refer to the Governing Documents of each Candlewood Fund for more complete information on the performance-based compensation arrangements of each Candlewood Fund. Candlewood may also receive a performance-based fee or a special allocation of profits in respect of the Managed Accounts. Different client accounts may be subject to different performance-based compensation arrangements.

The performance-based allocation arrangements discussed above comply with Rule 205-3 under the Investment Advisers Act of 1940 (the "Advisers Act").

Performance-based allocation arrangements received may create an incentive for Candlewood to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement.

Side-by-Side Management

Candlewood may provide concurrent advisory services to clients that are not charged a performance-based fee or allocation, or are charged a lower fee, at the same time as it provides services to clients that are charged a higher performance-based fee or allocation. The potential for Candlewood to receive greater fees or allocations from performance-based accounts, or accounts paying higher fees, may create a potential conflict of interest with respect to the allocation of investment opportunities, as Candlewood may have an incentive to direct the best investment ideas to, or to allocate investments in favor of, the account that pays a higher performance fee or allocation. To alleviate potential conflicts of interest, the allocation of commitments and investment decisions with respect to each Candlewood Fund and Managed Account are made by Candlewood in accordance with Candlewood's investment allocation policy, considering all factors potentially applicable to each client. Among the factors that may be considered by Candlewood in allocating trades among client accounts are: investment policies, guidelines or restrictions applicable to each specific client; tax considerations; cash availability; liquidity requirements for payment of redemptions or other purposes; risk tolerances; restrictions under ERISA or other applicable laws or regulations; available credit lines; counterparty exposure; account size; industry and security weightings; and hedging objectives and activity.

In the event investment opportunities are suitable for more than one Candlewood Fund or Managed Account, Candlewood will allocate such investment opportunities in a manner that is fair and equitable to each account over time, taking into account all relevant facts and circumstances.

Types of Clients

Types of Clients

Candlewood provides advice to pooled investment vehicles, including the Candlewood Funds. The limited partners of the Candlewood Funds may include corporations, endowments, foundations, trusts, estates, individuals and pension and profit sharing plans. The Candlewood Funds are offered in the United States to accredited investors as defined under Regulation D under the Securities Act of 1933, as amended (the "Securities Act"), and to qualified purchasers as defined under Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), and are therefore not required to register as investment companies under the Investment Company Act in reliance upon the exemption under Section 3(c)(7) for funds whose securities are not publicly offered.

Candlewood also provides investment management and supervisory services to separate account clients. Certain of Candlewood's separate account clients may invest in existing or future Candlewood Funds.

Minimum Investment Requirements

As noted above, Candlewood and its related persons require that each limited partner or shareholder in each of the Candlewood Funds be an “accredited investor” as defined in Regulation D under the Securities Act and a “qualified purchaser” as defined in Section 2(a)(51) of the Investment Company Act.

Investors in the Candlewood Funds are generally required to make a minimum initial investment between \$500,000 and \$10 million, depending on the particular Candlewood Fund, although Candlewood may accept lower amounts in its (or the relevant general partner’s) discretion. Investors in the Candlewood Funds are also generally subject to a lock-up period ranging from six months to two years after investment, which lock-up may be waived or reduced by Candlewood or the relevant general partner in its discretion.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Investments and potential investments are typically analyzed by Candlewood using cyclical, technical and fundamental analysis, among other methods. The investment strategies employed by Candlewood include, but are not limited to, distressed debt, value equity, relative value, capital structure arbitrage, current income and structured credit strategies, as described below:

Directional Distressed/Value Equity: Candlewood opportunistically targets lesser-known securities and instruments that, although illiquid, offer attractive risk-adjusted return potential. Candlewood pursues passive, trading-oriented opportunities as well as active involvement in select situations, such as liquidations and restructurings. These investments may involve participation on creditor and/or steering committees.

Relative Value: Candlewood seeks to identify securities that are undervalued relative to other securities, such as different securities within the same company’s capital structure. Candlewood does not intend to use relative value as a substitute for fundamental analysis, but rather as a selection criteria for identifying potentially undervalued securities.

Capital Structure Arbitrage: Candlewood may enter paired trades of instruments within a single issuer’s capital structure that could include, for example: a long position in an issuer’s bank loan versus a short position on the same issuer’s bonds; a long position in bank loans, including unfunded revolvers, versus credit default swaps; a long position in bank loans or bonds versus a short position in equity or a long position in put options; and a long position in unsecured bonds versus a short position in subordinated bonds.

Current Income: Candlewood may acquire unhedged current income-producing assets.

Structured Credit: Candlewood conducts an in-depth credit review process, to understand the timing and probability of a security’s cash flows coupled with the unique

characteristics of each credit structure. Candlewood may invest in a broad range of instruments, including securities backed by residential mortgages, credit card loans, automobile loans, student loans, transportation finance loans and other asset-backed securities. In addition, Candlewood may invest in commercial and residential real estate whole loans and other real estate related assets.

These descriptions of specific strategies that are or may be engaged in by Candlewood on behalf of its clients are a summary only. Under the Governing Documents of each Candlewood Fund (and the investment management agreements with respect to other clients), Candlewood has broad discretion to employ investment strategies not described above that Candlewood may, from time to time, consider appropriate.

Candlewood's principal sources of information include quarterly and annual reports, offering materials, personal interviews with directors and officers of such entities, visits to such entities, SEC filings (if available), general industry knowledge, and research materials prepared by others.

The investment programs of the Candlewood Funds and other clients of Candlewood are speculative and entail substantial risks. There can be no assurance that Candlewood's investment objectives will be achieved. Accordingly, Candlewood's investment strategies could result in substantial losses to its clients under certain circumstances.

Material Risks

Although investments in the Candlewood Funds may result in significant returns to the clients of Candlewood, they also involve a substantial degree of risk. Candlewood generally accepts only clients that are able to bear the financial risk of the investment strategy for an indefinite period of time and are able to sustain the loss of all or a significant part of their investment.

Prospective investors in the Candlewood Funds should carefully review the risks described in the Governing Documents for the relevant Candlewood Fund, and should evaluate the merits and risks of an investment in the context of their overall financial circumstances. The risk factors below are not intended to be exhaustive and should be considered carefully by prospective investors together with the full text of the applicable Governing Document or client agreement.

Short-term Market Considerations. Candlewood's trading decisions may be made on the basis of short-term market considerations, and a high portfolio turnover rate could result in significant trading-related expenses.

Illiquid Investments. Candlewood may invest in securities and other assets that are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and Candlewood may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted

and illiquid assets often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of assets eligible for trading on national securities exchanges or in the over-the-counter markets. Candlewood may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Restricted assets may sell at a price lower than similar assets that are not subject to restrictions on resale.

Non-U.S. Investments. Candlewood may invest in securities and obligations which are traded in non-U.S. markets. Investing in the securities and obligations in non-U.S. countries involves certain considerations not usually associated with investing in securities and obligations in U.S. markets, including: political and economic considerations, such as greater risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gains or other income; 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; and certain government policies that may restrict Candlewood's investment opportunities. In addition, accounting and financial reporting standards in such countries may not be equivalent to U.S. standards and, consequently, less information may be available to investors in securities and obligations issued in such countries than is available to investors located in the U.S.

Uncertain Exit Strategies. Due to the illiquid nature of some of the positions that Candlewood is expected to acquire, Candlewood is unable to predict with confidence what the exit strategy will ultimately be for any given position, or that one will definitely be available. Exit strategies that appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

Leverage and Financing Risk. Candlewood uses leverage in its structured credit investment strategy, and may use leverage in its other strategies. Accordingly, Candlewood may pledge the assets of its clients in order to borrow additional funds for investment purposes. Candlewood may also leverage the investment return of its clients with options, short sales, swaps, forwards and other derivative instruments. The amount of borrowings that a client of Candlewood may have outstanding at any time may be substantial in relation to its capital. While leverage presents opportunities for increasing total return, it has the effect of potentially increasing losses as well. The anticipated use of short-term margin borrowings results in certain additional risks, such as the potential for a "margin call," pursuant to which a Candlewood client must either deposit additional funds or assets with a broker, or suffer mandatory liquidation of the pledged assets to compensate for a decline in value of such assets. In the event of a sudden drop in the value of the client's assets, such client might not be able to liquidate assets quickly enough to satisfy its margin requirements.

Event-Driven Investing. Event-driven investing requires the investor to make estimations about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's financial instruments. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed, or will result in a distribution of cash or a new security, the value of which may be less than the purchase price of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a wide range of factors.

Convertible Arbitrage. Convertible arbitrage strategies involve investing in convertible securities that appear incorrectly valued relative to their theoretical value. The strategy typically consists of the purchase (or short sale) of a convertible security coupled with the short sale (or purchase) of the underlying security for which the convertible security can be exchanged to exploit price differentials. Candlewood may seek to hedge out the risk inherent in the stock; the remaining risk may or may not be hedged. Convertible arbitrage strategies generally involve spreads between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss on the position will occur. Such positions do, however, entail a substantial risk that the price differential could change unfavorably, causing a loss to the spread position. Substantial risks also are involved in borrowing and lending against such investments. The prices of these investments can be volatile, market movements can be difficult to predict, and financing sources and related interest and exchange rates can be subject to rapid change. Certain corporate securities may be subordinated (and thus exposed to the first level of default risk) or otherwise subject to substantial credit risks.

Relative Value. The success of Candlewood's relative value trading strategy depends on its ability to identify overvalued and undervalued investment opportunities and exploit perceived inefficiencies in the pricing of financial instruments and capital, financial products or markets. Identification and exploitation of such discrepancies involve uncertainty. No assurance can be given that Candlewood will be able to correctly or successfully locate investment opportunities or to exploit pricing inefficiencies in the capital markets. In the event that the perceived mispricings underlying the positions of Candlewood clients were to fail to converge toward, or were to diverge further from, relationships expected by Candlewood, such clients may incur losses.

Capital Structure Arbitrage. The success of this strategy will depend on the ability of Candlewood to identify and exploit the relationships between movements in different securities and financial instruments within an issuer's capital structure (e.g., bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identification and exploitation of these opportunities involve uncertainty. In the event that the perceived pricing inefficiencies underlying an issuer's securities were to fail to materialize as expected by Candlewood, Candlewood clients could incur a loss.

Equity Price Risk. The investment portfolios of Candlewood clients may include long and short positions in equity securities of public and private, listed and unlisted

companies. Equity securities fluctuate in value in response to many factors, including, among others, the activities and financial condition of individual companies, geographic markets, industry market conditions, interest rates and general economic environments. In addition, events such as the domestic and international political environments, terrorism and natural disasters, may be unforeseeable and contribute to market volatility in ways that may adversely affect investments made by Candlewood.

Investments in Distressed Securities. Candlewood may invest in “below investment grade” securities and obligations (including ABS securities, ABS commercial paper, bank loans and trade claims) of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. 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 may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court’s power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies’ securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to Candlewood’s investment in any instrument, and a significant portion of the obligations and securities in which Candlewood invests may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high.

Bank Loans. Candlewood’s investment program may include investments in significant amounts of bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors’ rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of Candlewood to directly enforce the rights of its clients with respect to participations. In analyzing each bank loan or participation, Candlewood compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the client of Candlewood. Investments in loan participations may also subject such client to the risk of counterparty default. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private

syndication of the loan, loans are not as easily purchased or sold as a publicly traded security.

Prepayment Risk. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying certain of Candlewood's investments will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. In general, "premium" financial instruments (financial instruments whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" financial instruments (financial instruments whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since Candlewood's investments may include discount financial instruments when interest rates are high, and may include premium financial instruments when interest rates are low, such investments may be adversely affected by prepayments in any interest rate environment.

Collateralized Debt Obligations. Candlewood may invest in senior, subordinated and equity securities issued by issuers of collateralized debt obligations ("CDOs"). CDO securities are subject to credit, liquidity and interest rate risks. A holder of CDO equity will typically have limited remedies available upon the default of the CDO. CDOs often invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the related CDO securities to a greater degree of risk with respect to defaults by such obligor, and the concentration of a portfolio in any one industry would subject the related CDOs to a greater degree of risk with respect to economic downturns relating to such industry. The value of the CDO securities owned by clients of Candlewood generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. If distributions on and/or the realization of the CDO Collateral are insufficient to make payments on the CDO securities, no other assets will be available for payment of the deficiency and following realization of the CDO securities, the obligations of such issuer to pay such deficiency generally will be extinguished. CDO Collateral may consist of leveraged loans, high yield (generally unsecured) debt securities, asset-backed securities and other financial instruments (including derivatives), which often are rated below investment grade. The lower ratings of high yield securities and below investment grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest.

ABS and MBS. The investment characteristics of asset-backed securities ("ABS") and mortgage-backed securities ("MBS") differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, that payments are only made in respect of defined assets and that the principal typically may be prepaid at any time because the underlying loans or other

assets generally may be prepaid at any time. Investments in subordinated MBS and ABS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of MBS and ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the attributes typically associated with equity investments.

ABS. ABS present certain risks that are not presented by MBS. Primarily, these securities do not have the benefit of the same security interest in the related collateral. For example, most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

Commercial MBS. Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default. Most commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected.

Residential MBS. Holders of residential MBS ("RMBS") bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential properties. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults and losses on residential mortgages will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage may be a lengthy and difficult process, and may involve significant expenses. Residential mortgage loans in an issue of RMBS may be subject to various federal and state laws, public policies and principles of

equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. It is not expected that RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

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

Risks Associated with Bankruptcy Cases. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of Candlewood. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor. Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs; it may be subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. Although Candlewood intends to invest primarily in debt, the debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental value. Such investments can result in a total loss of principal. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

Litigation Generally. Reorganizations can be contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. Candlewood or one or more of the Candlewood Funds may be named as defendants in civil proceedings. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by clients.

Loan Origination. If Candlewood is unable to sell, assign or successfully close transactions for participations in the loans that it originates, it may be forced to hold an interest in such loans for an indeterminate period of time. This could result in investments being over-concentrated in certain borrowers.

Investing in High Yield Securities. Candlewood may invest in high-yield securities. Such securities are generally not exchange-traded and, as a result, trade in the over-the-counter marketplace, which is less transparent than the exchange-traded marketplace. In addition, Candlewood will invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing.

Credit Default Swaps. Candlewood may invest in credit default swaps. A credit default swap is a contract between two parties which transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. In essence, an institution which owns corporate debt instruments can purchase a limited form of default protection by entering into a credit default swap with another bank, broker-dealer or financial intermediary. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty and receiving a payment of par value, or (ii) by the parties pairing off payments, with the purchaser of the protection receiving a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default. The first way is the more common form of credit default swap termination. In the manner described above, credit default swaps can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds and loans. Credit default swaps can be used to implement Candlewood's view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, Candlewood may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of Candlewood to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. Candlewood may also "purchase" credit default protection even in the case in which it does not own the referenced instrument if, in the judgment of Candlewood, there is a high likelihood of credit deterioration. The credit default swap market in high yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of a company's common stock, potential loss upon default and the

shape of the U.S. Treasury Yield curve, among other factors. As such, there are many factors upon which market participants may have divergent views.

Convertible Securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security is called for redemption, the holder will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third-party.

Commodities and Commodity Derivatives. The prices of commodities contracts and derivative instruments, including futures and options, are highly volatile. Payments made pursuant to swap agreements may also be highly volatile. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them.

Derivatives and Option Investments. Candlewood may buy or sell (write) both call options and put options, and when it writes options, it may do so on a “covered” or an “uncovered” basis. Candlewood’s option transactions may be part of a hedging strategy (i.e., offsetting the risk involved in another securities position) or a form of leverage, in which Candlewood has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances. In general, without taking into account other positions or transactions Candlewood may enter into, the principal risks involved in options trading can be described as follows: When Candlewood buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of Candlewood’s investment in the option (including commissions). When Candlewood sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is “covered.” Swaps and certain options and other customized instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk.

Short Selling. Short selling involves selling securities which are not owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the

borrowed securities at a later date. Short selling allows the investor to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

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 refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market due to unusual trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit forward trading. Market illiquidity or disruption could result in major losses.

Hedging Transactions. The success of Candlewood’s hedging strategy will depend, in part, upon its ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many assets change as markets change or time passes, the success of Candlewood’s hedging strategy will also be subject to its ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While Candlewood may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance than if it had not engaged in such hedging transactions. For a variety of reasons, Candlewood may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged.

Disciplinary Information

Candlewood and its principals have not been the subject of any material legal proceeding required to be disclosed in response to this item.

Other Financial Industry Activities and Affiliations

Registered Broker-Dealers

None of Candlewood or its principals or employees are registered as a broker-dealer or a registered representative of a broker-dealer.

Registered Futures Commission Merchants, Commodity Pool Operators and Commodity Trading Advisors

None of Candlewood or any of its principals or employees are registered as or affiliated with a registered futures commission merchant, commodity pool operator or commodity trading advisor.

Relationships with Related Persons

As discussed in the section titled “Participation or Interest in Client Transactions; Personal Trading,” Candlewood and its related persons are, directly or indirectly, the general partner, limited partners and/or managing members of the general partner of each of the Candlewood Funds. Candlewood and its related persons may spend substantially all of their business time on one or more of the Candlewood Funds.

Credit Suisse Group, AG (“CS”) and its affiliates maintain a minority equity ownership interest in Candlewood. In addition, affiliates of CS continue to maintain an investment in the Candlewood Funds. As a result, Candlewood may be subject to certain conflicts of interest when engaging in transactions involving CS on behalf of the Candlewood Funds and Managed Accounts. The Candlewood Funds and Managed Accounts may enter into financing arrangements or derivative transactions with CS or may continue to use CS and its affiliates as service providers to the Candlewood Funds and Managed Accounts, notwithstanding the fact that other counterparties or service providers may be able to provide more beneficial terms to the Candlewood Funds and Managed Accounts. CS and its affiliates may have certain information regarding the Candlewood Funds’ and Managed Accounts’ portfolios that is not generally available to other investors and, as a result, CS may be able to take actions on the basis of such information that other investors, in the absence of such information, may not take. The Candlewood Funds and Managed Accounts may acquire certain securities of entities (e.g., collateralized debt obligations and asset-backed securities) for which CS or its affiliates act as investment adviser, collateral manager, general partner or placement agent and receive compensation or is the initial purchaser of such securities. CS or its affiliates are active participants in the market for underwriting, placing, structuring and trading equity securities, high yield bonds and loans and, subject to applicable law, may engage in transactions with the Candlewood Funds and Managed Accounts involving such securities and financial instruments. CS and its affiliates and investment funds and accounts managed by them may actively engage in transactions in the same assets sought by the Candlewood Funds and Managed Accounts and, therefore, may compete with the Candlewood Funds and Managed Accounts for investment opportunities. Alternatively, CS and its affiliates and investment funds and accounts managed by them may have short positions in the same

securities in which the Candlewood Funds and Managed Accounts maintains long positions. CS and its affiliates and their officers, agents and affiliates and their employees may serve on creditor or equity committees or advise companies subject to bankruptcy or insolvency proceedings or otherwise be engaged in financial restructuring activities in a variety of capacities. Actions taken by CS and such persons in these transactions may not be consistent with actions taken by Candlewood on behalf of the Candlewood Funds and Managed Accounts and may not be in the best interests of the Candlewood Funds and Managed Accounts.

Employees of Candlewood and its affiliates may serve as officers, advisors, directors or in comparable management functions for portfolio companies in which clients of Candlewood may invest. Employees of Candlewood may also from time to time serve on the board of directors or a creditors committee of a portfolio company, or be given access for other reasons to confidential information relating to companies in which clients of Candlewood may invest. As a result, Candlewood and the clients of Candlewood may, under certain circumstances, be prohibited for a period of time from engaging in transactions with respect to the debt or securities of such a portfolio company, which prohibition may have an adverse effect on clients of Candlewood.

Selection or Recommendation of Other Advisers

Candlewood does not recommend or select other investment advisers for its clients or receive compensation from such advisers in a manner that would create a material conflict of interest. Candlewood does not have other business relationships with other advisers that create a material conflict of interest.

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

Code of Ethics

Candlewood strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, Candlewood has adopted a Code of Ethics (the “Code”). The Code incorporates the following general principles that all employees are expected to uphold: employees must at all times place the interests of clients first; all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee’s position of trust and responsibility must be avoided; employees must not take any inappropriate advantage of their positions; and information concerning the identity of securities and financial circumstances of clients and the Candlewood Funds, including investors in the Candlewood Funds, must be kept confidential. The Code also places restrictions on personal trades by employees, including requiring that they disclose their personal securities holdings and transactions to Candlewood on a periodic basis, and requires that employees preclear certain types of personal securities transactions.

As part of the Code, Candlewood maintains insider trading policies and procedures (the “Insider Trading Policies”) that are designed to prevent the misuse of material, non-public information. Candlewood’s personnel are required to certify to their compliance with the Code, including the Insider Trading Policies, on at least an annual basis.

The Insider Trading Policies prohibit Candlewood and its personnel from trading for the Candlewood Funds and Managed Accounts or themselves, or recommend trading, in public securities of a company while in possession of material, non-public information (“Inside Information”) about the company, and from disclosing such information to any person not entitled to receive it. By reason of its various activities, Candlewood may have access to Inside Information or be restricted from effecting transactions in certain investments that might otherwise have been initiated. Candlewood has designed and implemented policies and procedures reasonably designed to closely monitor the access of its investment professionals to Inside Information. Among other things, such policies seek to control and monitor the flow of Inside Information to and within Candlewood, as well as to prevent trading public securities based on Inside Information.

Notwithstanding such policies and procedures, there may be certain cases where Candlewood either may receive Inside Information due to its various activities on behalf of itself or the Candlewood Funds and Managed Accounts or may be restricted in acting for the Candlewood Funds or Managed Accounts. As a result, Candlewood may, under certain circumstances, be prohibited for a period of time from engaging in transactions with respect to the debt or securities of such a portfolio company, which prohibition may have an adverse effect on a client or the Candlewood Funds. Candlewood seeks to minimize those cases whenever possible, consistent with applicable law and our Insider Trading Policies, but there can be no assurance that such efforts will be successful and that such restrictions will not occur.

Investors may request a copy of the Code by contacting Candlewood at the address or telephone number listed on the first page of this document.

Participation or Interest in Client Transactions; Personal Trading

Candlewood may, with the prior approval of the clients involved, cause one or more of its clients to buy securities from, or sell securities to, other clients of Candlewood at current market prices, including accounts in which Candlewood, its principals or employees are investors or in which such persons may have a financial interest, either directly or indirectly, due to the payment of a performance allocation to Candlewood (or an affiliate) by such client. Candlewood will only engage in “cross trades” if the sale or purchase is consistent with Candlewood’s fiduciary obligations to each client. Cross transactions may include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar. Candlewood has a potentially conflicting division of loyalties and responsibilities regarding both parties to any cross transactions. Where required by applicable law, any such transaction will be approved in advance by the client in accordance with Section 206(3) of the Advisers Act.

On occasion, Candlewood and its principals and employees may buy and sell securities for themselves that they also recommend to clients. Candlewood and its principals and employees are investors in some of the investment funds managed by Candlewood. The Code of Ethics contains policies and procedures designed to prevent improper practices with respect to such transactions, and compliance with the Code of Ethics by Candlewood, its principals and employees is the primary method employed by Candlewood to address the conflicts of interest that arise with respect to these transactions. For example, the principals and employees of Candlewood are generally not permitted to execute a personal securities transaction if any client of Candlewood has a position in the same security.

From time to time, a Candlewood Fund or other entity controlled by Candlewood may offer to other Candlewood Funds or clients participations in and/or assignments or sales of loans (or interests in loans) that such Candlewood Fund has originated or purchased. In the event of such an offer, the price for such instrument will be established based on third-party quotations or valuations. The decision by a client of Candlewood to accept or reject the offer will be made by a party independent of Candlewood, such as the independent directors of such client.

In certain situations, related persons of Candlewood may purchase interests in portfolio investments held by one or more Candlewood Funds. All such purchases are subject to compliance with Candlewood's Code of Ethics as described above. In addition, Candlewood and/or certain members or employees of Candlewood may, directly or through one or more entities, sell securities in which they have a direct or indirect ownership interest to certain Candlewood Funds, provided that the sale is consistent with Candlewood's fiduciary obligations to the Candlewood Funds. Such transactions will be fully disclosed in writing, and where required by applicable law, the written consent of the appropriate client will be obtained in accordance with Section 206(3) of the Advisers Act.

Brokerage Practices

Subject to the investment objectives, policies and restrictions of each Candlewood Fund as set forth in such Candlewood Fund's Governing Documents, Candlewood has discretionary authority to determine the type, amount, and price of securities and investments to be bought and sold on behalf of each Candlewood Fund, including the selection of, and commissions paid to, brokers.

In selecting broker-dealers to effect securities transactions, Candlewood seeks to obtain best execution by considering such factors as price, transaction costs, a broker's or dealer's ability to effect the transactions, its facilities, reliability and financial responsibility, commitment of capital and the provision or payment by the broker of the costs of research and research-related services which are of benefit to Candlewood, the Candlewood Funds, or Managed Accounts, as well such other factors as Candlewood considers relevant and beneficial to the Candlewood Funds or Managed Accounts. Candlewood may consider referrals of Candlewood Fund investors in determining its selection of brokers. Accordingly, the commission rates (or dealer markups and

markdowns arising in connection with riskless principal transactions) charged to the Candlewood Funds and Managed Accounts by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers that may not offer such services.

Research and Other Soft Dollar Benefits

Section 28(e) of the Securities Exchange Act of 1934 (the “Exchange Act”) provides a safe harbor that permits advisers, when selecting brokers to execute transactions for client accounts, to take into account certain research products and services provided to the adviser by brokers. Clients may pay higher commissions than are obtainable from other brokers as a result of the consideration of research services as a factor in selecting brokers in addition to commission cost and best execution, provided that Candlewood determines in good faith that the amount of commissions charged is reasonable in relation to the value of the brokerage and research services provided by such broker. Research services provided to Candlewood by brokers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing services; and discussions with research personnel. Candlewood does not currently engage in any soft dollar arrangements in which Candlewood receives third-party services. However, consistent with obtaining best execution for clients, Candlewood may in the future engage in such soft dollar arrangements, provided that such arrangements are of the type described in Section 28(e) of the Exchange Act and are designed to augment Candlewood’s own internal research and investment strategy capabilities.

Receipt of research services from brokers may provide Candlewood with a benefit because it will not have to produce or pay for the research, products or services. Candlewood may have an incentive to select a broker-dealer based on its interest in receiving the research or other products or services, rather than on a client’s interest in receiving most favorable execution.

Research services obtained with the use of commissions arising from portfolio transactions may be used by Candlewood in its investment activities for all of its clients, and, therefore, any particular client may or may not, in any particular instance, be the direct or indirect beneficiary of the research or services provided.

Subject to the considerations described above, the selection of a broker, including a prime broker, to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services may be influenced by, among other things, the provision by the broker of the following: capital introduction, marketing assistance and consulting services with respect to technology, operations, commitment of capital, access to company management, and access to deal flow. Generally, neither Candlewood nor any client of Candlewood (including the Candlewood Funds) separately compensates any broker for any of these other services. In view of the fact that the investment programs of Candlewood clients include trading as well as investments, short-term market considerations will frequently be involved, and the turnover rate of the portfolios of the

Candlewood Funds in certain circumstances may be substantially greater than the turnover rates of other types of investment vehicles.

Directed Brokerage

Candlewood does not recommend, request or require clients to direct it to execute transactions through a specified broker-dealer (“directed brokerage”).

Trade Aggregation

When it is determined that it would be appropriate for any Candlewood Funds and Managed Accounts to participate in an investment opportunity, Candlewood will seek to execute orders for all of the participating investment accounts on an equitable basis, taking into account such factors as the relative amounts of capital available for new investments, relative exposure to short-term market trends and the investment programs and portfolio positions of the applicable Candlewood Funds and Managed Accounts for which participation is appropriate. However, Candlewood has no obligation to obtain any particular investment opportunity for any particular Candlewood Fund or Managed Account, and Candlewood may be precluded from offering to certain Candlewood Funds and Managed Accounts particular securities in certain situations, including where Candlewood or its affiliates have a prior contractual commitment with other accounts or clients. Orders may be combined for all such accounts, and if any order is not filled at the same price, they may be allocated on an average price basis. Similarly, if an order on behalf of more than one account cannot be fully executed under prevailing market conditions, securities may be allocated among the different accounts on a basis which Candlewood or its affiliates considers equitable. There is no assurance that the Candlewood Funds and Managed Accounts will hold the same investments or perform in a substantially similar manner as other Candlewood Funds or Managed Accounts with similar strategies.

Review of Accounts

Review of Client Accounts

Candlewood performs various daily, weekly, monthly, quarterly and periodic reviews of the Candlewood Funds’ portfolios and the portfolios of the Managed Accounts. Such reviews are conducted by Candlewood’s investment professionals. Among other criteria, the portfolios are reviewed in the context of each Candlewood Fund’s adherence to the investment objectives and guidelines as set forth in the Governing Documents of each Candlewood Fund.

Each review is conducted by one or more of the following supervised persons:

For the Candlewood Special Situations Funds:	
Supervised Person	Title
Michael Lau	CEO and Managing Partner of Candlewood; Co-Portfolio

	Manager of Candlewood Special Situations Funds
David Koenig	Managing Partner of Candlewood; Co-Portfolio Manager of Candlewood Special Situations Funds
For the Candlewood Structured Credit Funds and Managed Accounts:	
Supervised Person	Title
Gregory Richter	Head of Structured Credit and Co-Portfolio Manager of Candlewood Structured Credit Funds; Member of the Managed Accounts Sub-Advisory Committee
Brian Herr	Co-Portfolio Manager of Candlewood Structured Credit Funds; Member of the Managed Accounts Sub-Advisory Committee
For the Managed Accounts:	
Supervised Person	Title
Indra Chandra	President and Partner of Candlewood; Member of the Managed Accounts Sub-Advisory Committee

Reports to Clients

Investors in the Candlewood Funds receive monthly written reports, although Candlewood may provide certain investors with information on a more frequent and detailed basis if agreed to by Candlewood. In addition, each Candlewood Fund issues tax reports and audited financial statements to investors within 120 days of their fiscal year-end.

Investors are requested to refer to the Governing Documents of each Candlewood Fund for further information on the reports provided by a particular Candlewood Fund to its investors.

Client Referrals and Other Compensation

Economic Benefits Received from Third Parties

Candlewood is compensated exclusively by its clients and investors for providing investment advice.

Third Party Compensation for Client Referrals

Candlewood or its affiliates may enter into arrangements with unaffiliated placement agents or third parties whereby Candlewood or its affiliates will pay to third parties who introduce clients or investors in the Candlewood Funds to Candlewood or its affiliates a portion of the advisory fee received by Candlewood or its affiliate from such clients or with respect to such investors' investment in a Candlewood Fund. Any sales charge associated therewith will ultimately be payable by Candlewood or its related persons,

either directly or through an offset of the management fee payable by the relevant client or Candlewood Fund to Candlewood. Such arrangements will be disclosed to Candlewood's clients in accordance with, and otherwise comply with, Rule 206(4)-3 under the Advisers Act. Certain third parties may be affiliates of Candlewood.

Custody

Candlewood will not have physical custody of any client assets. Candlewood may be deemed to have custody of the assets of the Candlewood Funds as a result of its authority over the Candlewood Funds.

It is Candlewood's policy to cause each Candlewood Fund with assets over which Candlewood is deemed to have "custody" to be audited annually and distribute audited financial statements, prepared in accordance with U.S. generally accepted accounting principles, to investors no later than 120 days after the end of each fiscal year.

All assets in the accounts of Candlewood clients will be held by a qualified custodian. Managed Account clients should receive at least quarterly statements from the custodian. Candlewood urges clients to carefully review such statements and compare them to any account statements provided by Candlewood.

Investment Discretion

Subject to the investment objectives, policies and restrictions of each Candlewood Fund as set forth in the Governing Documents of such Candlewood Fund, Candlewood has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of each Candlewood Fund, including the selection of, and commissions paid to, broker-dealers. Candlewood has similar discretionary authority on behalf of the Managed Accounts, subject to the terms of the agreements governing such relationship.

Voting Client Securities

Because Candlewood has, or will accept, authority to vote securities held by a Candlewood Fund or Managed Account, it has adopted policies and procedures (the "Proxy Voting Policies and Procedures") that have been designed to ensure that Candlewood complies with the requirements of Rule 206(4)-6 and Rule 204-2(c)(2) under the Advisers Act, and reflect Candlewood's commitment to vote all client securities for which it exercises voting authority in a manner consistent with the best interest of the client.

The general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds, if any (collectively, "proxies"), in a manner that serves the best interests of the Candlewood Funds and Managed Accounts, as determined by Candlewood in its discretion, taking into account the following factors: (i) the impact on the value of the investments; (ii) the anticipated associated costs and benefits; (iii) the continued or increased availability of

portfolio information; and (iv) industry and business practices. In limited circumstances, Candlewood may refrain from voting proxies where Candlewood believes that voting would be inappropriate taking into consideration the cost of voting the proxy and the anticipated benefit to the Candlewood Funds and Managed Accounts.

Prior to exercising its voting authority, Candlewood reviews the relevant facts and determines whether or not a material conflict of interest may arise due to business, personal or family relationships of Candlewood, its owners, its employees or its related persons, with persons having an interest in the outcome of the vote. If a material conflict exists, Candlewood takes steps to ensure that its voting decision is based on the best interests of the client and is not a product of the conflict. Candlewood may, at its discretion, disclose the conflict of interest to the client and defer to the client's voting recommendation, defer to the voting recommendation of an independent third party provider of proxy voting services, or take any other action which would serve the best interest of the client. Depending on the particular circumstances involved, the appropriate resolution of one conflict of interest may differ from the resolution of another conflict of interest, even though the general facts underlying both conflicts may be similar or identical.

Candlewood will deliver to each client upon written request a complete copy of its Proxy Voting Policies and Procedures and/or information on how it voted proxies for the applicable Candlewood Fund or Managed Account.

Financial Information

Not Applicable.