

**PART 2A OF FORM ADV:  
FIRM BROCHURE**

**ABRAMS CAPITAL MANAGEMENT, L.P.**

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This document (the "Brochure") provides information about the qualifications and business practices of Abrams Capital Management, L.P. ("Abrams Capital"). If you have any questions about the contents of this Brochure, please contact us at (617) 646-6100 or [IR@abramscapital.com](mailto:IR@abramscapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Abrams Capital also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Being a "registered investment adviser" or describing Abrams Capital as being "registered" does not imply a certain level of skill or training.

**THIS BROCHURE DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY.**

## **Item 2 – Material Changes**

No material changes have been made to this Brochure since the previous version dated February 7, 2012. We will deliver to you a summary of any material changes to this Brochure and subsequent brochures within 120 days of the close of our fiscal year. We also will provide ongoing disclosure about material changes as such changes may arise.

Our Brochure may be requested, free of charge, by contacting our Investor Relations Department at (617) 646-6100 or [IR@abramscapital.com](mailto:IR@abramscapital.com).

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#### Item 4 – Advisory Business

Abrams Capital Management, L.P. (“Abrams Capital”) is a Boston-based investment firm founded in 1999. David Abrams, as a limited partner of Abrams Capital and the managing member of the general partner of Abrams Capital, Abrams Capital Management, LLC, is the principal owner of Abrams Capital and controls Abrams Capital. The general partner of Abrams Capital has ultimate responsibility for the management and operations of Abrams Capital.

Abrams Capital provides investment advisory services to privately-offered alternative investment funds (the names of which are set forth in **Item 5 - Fees and Compensation**). The primary investment objective of the Funds (as defined in **Item 5**) is to maximize long-term total returns in variable market and economic conditions, while emphasizing preservation of capital. Abrams Capital’s investment strategy is opportunistic and follows a fundamental, value-oriented approach. Investments generally are made with a long-term time horizon and are generally unlevered and long-biased. Abrams Capital and its affiliates have acquired and liquidated investments across a wide spectrum of asset types, investment strategies, market sectors, market cycles and industries. This spectrum includes, but is not limited to, distressed securities, private and/or illiquid securities, investments in pooled investment vehicles managed by unaffiliated investment advisers, and domestic and foreign equity and debt securities. Please see **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**, for a more comprehensive discussion of our investment approach.

Abrams Capital makes all investment decisions on behalf of the Funds pursuant to the terms of an investment management agreement between each Fund and Abrams Capital. Abrams Capital’s primary responsibilities are to identify, review, and select investment opportunities that it believes will achieve the investment objectives of the Funds. This requires Abrams Capital to monitor investments and determine whether to modify investment allocations. Abrams Capital and its affiliates, Abrams Capital, LLC, Great Hollow Partners, LLC, Riva Capital Management, LLC, Riva Capital Management II, LLC, and Riva Capital Management III, LLC, also provide administrative and management services to the Funds.

Abrams Capital currently does not provide investment advisory services to clients apart from its management of the Funds and does not participate in wrap fee programs. Abrams Capital may, from time to time, serve as the investment adviser or management company for additional funds or other products.

As of January 1, 2013, Abrams Capital managed on a discretionary basis approximately \$6,034,000,000, which represents the aggregate net asset value of the Funds as of such date. Abrams Capital does not manage any assets on a non-discretionary basis.

For a further discussion of these and related items, see **Item 7** (Types of Clients), **Item 8** (Methods of Analysis, Investment Strategies and Risk of Loss) and **Item 10** (Other Financial Industry Activities and Affiliations).

## **Item 5 – Fees and Compensation**

### **Management Fee and Performance Allocation**

The fees applicable to each Fund are set forth in detail in each Fund’s offering documents. A summary of such fees is provided below.

Pursuant to an investment management agreement with each of (i) Abrams Capital Partners I, L.P., Abrams Capital Partners II, L.P., Whitecrest Partners, LP, Abrams Capital International, Ltd., and Great Hollow International, L.P. (collectively, the “Abrams Funds”), and (ii) Riva Capital Partners, L.P. (“Riva I”), Riva Capital Partners II, L.P. (“Riva II”), and Riva Capital Partners III, L.P. (“Riva III”; together with Riva I and Riva II, collectively the “Riva Funds”; and together with the Abrams Funds, collectively the “Funds”; and each a “Fund”), each Fund agrees to pay Abrams Capital a quarterly management fee. The formula for calculating the quarterly management fee for each Fund is as follows:

<b><u>Fund</u></b>	<b><u>Quarterly Management Fee Calculation</u></b>
Each Abrams Fund (other than Great Hollow International, L.P.)	An amount equal to the sum of 0.25% (1.0% on an annual basis) of the value of each investor's account balance payable at the beginning of the applicable calendar quarter. Abrams Capital International, Ltd. invests substantially all of its assets through Great Hollow International, L.P. as part of a "mini master fund" structure. As a result, Abrams Capital does not charge Great Hollow International, L.P. a management fee.
Riva I	An amount equal to 0.25% (1.0% on an annual basis) of the total cost of the portfolio investments held by Riva I, as adjusted for write-downs and/or write-offs.
Riva II	An amount equal to 0.1875% (0.75% on an annual basis) of the fair value of the portfolio investments held by Riva II.
Riva III	<p>During the "Commitment Period", an amount equal to the sum of:</p> <ul style="list-style-type: none"> <li>(i) 0.25% (1.0% on an annual basis) of the aggregate capital contributions made to Riva III prior to the start of the applicable quarter; <u>and</u></li> <li>(ii) an amount equal to the product of (a) 0.25% of each capital contribution made during the quarter, <u>multiplied by</u> (b) the ratio of the number of days remaining in such quarter to the total number of days in the quarter.</li> </ul> <p>After the Commitment Period, an amount equal to 0.25% (1.0% on an annual basis) of the net asset value of Riva III (calculated at the end of the applicable calendar quarter).</p> <p>"Commitment Period" means the period beginning on July 1, 2011 and ending on June 30, 2015, subject to extension or early termination in certain instances set forth in Riva III's organizational documents.</p>

In addition to the management fees paid by the Riva Funds, Abrams Capital and/or its affiliates may receive certain transaction-related fees (e.g., commitment fees, closing fees, monitoring fees, transaction fees, investment banking fees and net break-up fees, if any, from broken deals) in connection with certain actual or potential investments made by the Riva Funds. Fifty percent of any such transaction-related fees are applied to reduce the

amount of future management fees payable by Riva I, Riva II, or Riva III, as the case may be, or if the transaction-related fees are in excess of future management fees, such amount will be returned to the applicable Riva Fund.

Subject to certain limitations, affiliates of Abrams Capital also are entitled to receive from each Fund a performance-based profit allocation from time to time. Please see **Item 6** below for a further description of this performance-based profit allocation.

The investment management fee and the performance-based profit allocation may be waived, rebated, or modified by Abrams Capital or its affiliates for any investor, including investors that are affiliated with Abrams Capital or its affiliates (including employees and their family members).

The investment management fee is deducted from the assets of the Funds generally on the first day of each calendar quarter and charged against the account of each investor accordingly. An investor that invests in a Fund other than at the beginning of a calendar quarter will be charged a pro rata investment management fee for the initial calendar quarter. Generally, no portion of the prepaid quarterly investment management fee is refunded to an investor for any reason.

## **Expenses**

Each Abrams Fund pays all costs and expenses related to its own investments and operations, including, without limitation, expenses related to the investment of the Fund's assets (e.g., brokerage commissions and other transaction costs (for a further description of these costs and expenses, see **Item 12** below), clearing and settlement charges, custodial fees, fees of an administrator, initial and variation margin, interest expenses, costs and expenses of financings and refinancings, stock borrowing fees, fees and expenses arising in connection with unconsummated transactions, including break-up fees and termination costs, proxy solicitation expenses, certain research fees and expenses, investment-related travel expenses, and consulting, advisory, investment banking and other professional fees relating to particular investments or contemplated investments, appraisal fees, and portfolio valuation fees), legal expenses, audit and tax preparation expenses, insurance premiums, deductibles and fees, corporate licensing expenses, expenses incurred in connection with the offering and sale of limited partnership interests or shares, as applicable, regulatory expenses (including filing fees), expenses of creating and maintaining subsidiaries, joint ventures and other investment entities and the costs of any litigation or investigation involving Fund activities.

Each Riva Fund pays the expenses incurred in the conduct of its own business, including the following: (i) all expenses incurred in connection with the Fund's investment operations, including all costs and expenses relating to due diligence, documentation, travel and other matters relating to the investigation, consideration and negotiation of all investment and disposition transactions, whether or not consummated (including legal and accounting fees), and all costs and expenses relating to purchasing, holding and overseeing portfolio investments, appraisal fees, the formation of subsidiary entities to acquire and

hold portfolio investments and alternative investment vehicles to the extent such costs are not borne by the investors directly, and banking charges; (ii) costs and fees relating to the preparation of financial and tax reports, portfolio valuations, administration (in the case of Riva III only) and tax returns of the Fund; (iii) the management fee and any legal, accounting and other professional and consulting fees; (iv) all costs related to an advisory committee (in the case of Riva I only); (v) all costs related to the indemnification obligations of the Fund; (vi) the costs of any litigation, director and officer liability or other insurance and extraordinary expense or liability relating to the affairs of the Fund; (vii) all expenses of liquidating the Fund and/or its investments; (viii) any taxes, fees or other governmental charges levied against the Fund and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Fund; and (ix) interest expenses on borrowings permitted by the terms of the Fund's limited partnership agreement and all expenses incurred in negotiating, entering into, effecting, maintaining, varying and terminating any borrowing or guarantee permitted to be incurred under such partnership agreement.

A portion of the expenses of each Fund may be shared with the other Funds, generally on a pro rata basis based on net assets, committed capital or holdings.

Abrams Capital and its supervised persons do not accept any compensation (e.g., brokerage commissions) for the sale of securities or other investment products, including interests in the Funds.

For a further discussion of these and related items, see **Item 12** (Brokerage Practices).

## **Item 6 – Performance-Based Fees and Side-by-Side Management**

### **Abrams Funds**

The general partners of the Abrams Funds (excluding Abrams Capital International) are entitled to receive from such Funds an annual performance-based profit allocation (a "Performance Allocation") generally at the end of each calendar year. The Performance Allocation is an amount equal to 20% of the net increase of each investor's capital account or share holdings, as applicable (that is, a share of capital gains on, income derived from, or appreciation of the investment (whether realized or unrealized)) in the applicable Abrams Fund (excluding unrealized gains on "side pocketed" investments), measured at the beginning of such calendar year and subject to a high-water mark. Abrams Capital is entitled to a performance fee from Abrams Capital International to the extent that it makes direct investments (rather than investments made through Great Hollow International, L.P.), which is calculated in the same manner as the Performance Allocation described above and is subject to the high-water mark described below.

In general, a "high-water mark" means that the applicable general partner or investment adviser will receive Performance Allocations on an investor's aggregate investment in an



Abrams Fund only when the value of the investment, at the time of determination, is higher than the investment's highest value as of the date of the most immediately preceding determination of whether a Performance Allocation is payable. Should the investment decrease in value (that is, due to capital losses or depreciation of the investment (whether realized or unrealized)), the investment must increase in value back above the previous highest value before the applicable general partner/investment adviser will receive Performance Allocations again.

Notwithstanding the foregoing, the high-water mark associated with the Performance Allocation has a 3 year "roll off" feature. That is, if an investor in an Abrams Fund has unrecovered net losses (or net losses that have not otherwise been applied to offset gains for purposes of calculating the Performance Allocation) during any of the three years (or portions thereof) concluded on the date such Performance Allocation is determined, the general partner/investment adviser shall not be allocated a Performance Allocation until the investor has first recovered such net losses, but any unrecovered net losses that were incurred greater than three years prior to the date of determination of the Performance Allocation shall be disregarded and not used to offset gains. The following example may be useful:

At the beginning of Year 1, investor makes an investment of \$100 into the fund. At the end of Year 1, investor has a net loss in its capital account of \$10, which results in an ending balance of \$90. At the moment, investor's high-water mark is \$100 and the general partner/investment adviser does not receive a performance allocation because the balance in investor's capital account (\$90) is below the high-water mark (\$100). During Year 2, investor's capital account experiences net capital appreciation of \$2, which results in an ending capital account balance of \$92 (still below the \$100 high-water mark) and, as such, the general partner/investment adviser is not entitled to a performance allocation on the investor's \$2 of net capital appreciation for Year 2. During Year 3, investor's capital account experiences additional net capital appreciation of \$3, which results in an ending capital account balance of \$95 (again, below the \$100 high-water mark); hence, no performance allocation is made to the general partner/investment adviser for Year 3. Finally, during Year 4, investor's capital account balance rises to \$99, which remains below the \$100 high-water mark. In this instance, however, the general partner/investment adviser will receive a performance allocation equal to 20% of \$4 because the \$10 net loss from Year 1 was used to offset the \$5 in net gains from Years 2 and 3 and the remaining \$5 net loss from Year 1 is excluded from the investor's high-water mark calculation as of the end of Year 4 due to the roll-off provision contained in the applicable limited partnership agreement or investment management agreement.

If an investor withdraws capital from an Abrams Fund, the amount of such investor's high-water mark, if any, will be reduced in proportion to the amount of capital withdrawn.

## **Riva Funds**

From time to time, the Riva Funds will liquidate a portfolio investment and receive disposition proceeds. At other times, an investment will yield current income to the Riva Funds (e.g., dividends, interest payments, etc.). The general partners of the Riva Funds (which are affiliates of Abrams Capital) will make distributions from time to time of the disposition proceeds and income attributable to a particular portfolio investment. Upon the occurrence of any such distribution, the applicable general partner is entitled to receive 20% of any profits from the distributing Riva Fund (otherwise known as a “carried interest”) after deducting from such profits expenses paid by limited partners and the amount of any write-down or write-off of other investments held by the Riva Fund. Notwithstanding the foregoing, immediately prior to liquidation of the applicable Riva Fund, the general partner will be required to return to the Fund all or a portion of any carried interest previously received (net of applicable taxes payable with respect thereto) if and to the extent that it has received cumulative distributions with respect to its carried interest in excess of 20% of the cumulative earnings of the Fund measured and calculated over the Fund’s entire term (although in no event will the general partner be required to return more than the cumulative distributions received by the general partner with respect to its carried interest, reduced by the amount of taxes payable with respect thereto by the members of the general partner).

Abrams Capital and its affiliates manage the Funds, each of which is charged a performance-based profit allocation as described above. A performance-based profit allocation may create an incentive for Abrams Capital to make investments that are riskier or more speculative than would be the case in the absence of a performance-based profit allocation. Abrams Capital and its affiliates charge performance-based allocations/fees to every Fund. As a result, Abrams Capital and its affiliates do not face the conflict of interest that may arise when an investment adviser accepts performance-based allocations/fees from some, but not all, clients.

Abrams Capital and its affiliates may waive or reduce the Performance Allocation and/or carried interest with respect to certain persons affiliated with Abrams Capital and/or its affiliates (including employees and their family members).

## **Item 7 – Types of Clients**

Abrams Capital provides investment management services exclusively to privately-offered, alternative investment funds.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

Abrams Capital primarily follows a “value” investment philosophy of making investments for the Funds at prices that are significantly below Abrams Capital’s estimate of their

intrinsic value as a business enterprise or asset. The market price of such investments may be temporarily depressed (i) by visible near-term problems, (ii) because value is being overlooked by the market, (iii) because of investor uncertainty over a complex legal or business circumstance, or (iv) for any number of other reasons. Abrams Capital believes that pursuing this strategy should result in a portfolio with significant potential for appreciation, even in uncertain market conditions, while at the same time reducing risk and mitigating the effects of broad market declines or unexpected events. Although the Funds generally pursue the same investment strategy, the Riva Funds were created as “overflow” vehicles for situations in which the opportunity presented is larger than can be accommodated in the Abrams Funds; thus, there will be situations where an investment opportunity is allocated only to the Abrams Funds and not the Riva Funds. In addition, the Riva Funds generally hold a more concentrated portfolio than the Abrams Funds and have the ability to hold a more concentrated position in any single issuer than the Abrams Funds.

Abrams Capital may make investments for the Funds in a number of different market sectors and industries and in securities and other financial instruments of all kinds. As market forces and investor preferences cause one industry or asset category to generally decline in price, Abrams Capital expects that there will be greater opportunity to make investments in such industries and asset classes at larger discounts to their intrinsic values. Abrams Capital intends to be flexible in shifting portfolio allocations for the Funds among different sectors in order to make investments at attractive prices, as measured against their intrinsic value.

To succeed in applying a value approach, Abrams Capital believes that it must (i) locate and accurately evaluate numerous candidates for investment, (ii) determine that the investment's value will increase in absolute terms, or identify the event or other change of conditions that will cause any value discount to be reduced, and (iii) properly execute the strategy to acquire and dispose of the asset for the greatest gain.

Abrams Capital believes that a value strategy should be applied in an opportunistic manner, since the asset categories that present the greatest discounts to intrinsic value (and, therefore, the most attractive prices) will shift with investor preferences. Accordingly, portfolio allocation also must shift towards those areas that are often the most out of favor or the least understood. Abrams Capital believes that total return is mostly driven by favorable prices at purchase, and that these are found by continually re-evaluating investment categories in light of prevailing market perception and economic conditions. Abrams Capital evaluates investment opportunities in many of the following asset categories: undervalued equity securities, securities issued by financially distressed companies, sovereigns, or municipalities, securities issued by companies in connection with a reorganization or restructuring, high-yield securities, real estate and real estate-related securities (e.g., commercial and residential mortgage backed securities), privately placed securities, limited partnership or similar interests in other pooled vehicles, and securities issued by non-U.S. companies. Consistent with the investment guidelines of the Funds, Abrams Capital may invest in various hedging instruments, derivative instruments (including instruments used for non-hedging purposes) and structured products if Abrams

Capital believes that such instruments will assist the Funds in achieving their investment objectives. Such investments may involve risks that exceed those involved in the asset categories set forth above.

Abrams Capital is authorized to pursue other strategies and to make a wide range of investments in pursuit of each Fund's objective, including certain investments in illiquid or restricted securities and assets.

Abrams Capital may employ certain active investment management techniques including hedging with derivatives. These techniques may be employed in an attempt to hedge risks associated with the Funds' portfolio or for profit. Investment and trading techniques that may be employed by Abrams Capital also include short selling, utilization of leverage, and creation of "side pockets" to hold investments (i) for which limited or no liquidity exists or third-party pricing is not readily available or deemed reliable, (ii) that are subject to transfer restrictions, and (iii) for other reasons determined by Abrams Capital to require a fixed or extended holding period.

The Funds hold any cash balances they may accumulate in custody accounts, interest-bearing bank accounts, short-term debt securities, securities subject to repurchase agreements, money market mutual funds, or other securities. The cash balances of a Fund will vary from time to time, as Abrams Capital may deem advisable. Abrams Capital may also deem it advisable to hold no cash balances whatsoever from time to time.

**It is impossible to predict the degree of profitability, if any, that may be achieved from the investment strategy described above. In particular, Abrams Capital's investment practices may, in some circumstances, increase any adverse impact to which one or more Fund's investment portfolio may be subject. Abrams Capital endeavors to commit each Fund's resources among the various investments and strategies consistent with the philosophy and process articulated above and in response to changing market conditions and opportunities. The foregoing discussion includes and is based upon assumptions and opinions of Abrams Capital concerning world financial markets and other matters, the accuracy of which cannot be assured. The description set forth above is general and is not intended to be exhaustive. The risks of each Fund's business are substantial and each Fund could realize losses rather than gains from some or all of the investments described herein. Investing in securities involves a risk of loss that clients should be prepared to bear.**

#### *Material Risks.*

The following is an explanation of the material risks that Abrams Capital believes are associated with its investment strategy. Unless stated otherwise, each risk applies to all of the Funds. Further discussion of these and other risks associated with an investment in each Fund are set forth in the applicable Fund's confidential offering memorandum or other offering documents. The following risk factors do not purport to be a complete list or explanation of all the risks associated with an investment in one or more of the Funds.

***Nature of Securities Investments.*** An investment in a Fund involves a high degree of risk, including the risk that the entire amount invested may be lost. No guarantee or representation is made that the Funds' investment program will be successful or that the Funds will achieve their objective. Abrams Capital generally invests the Funds' assets in securities and other types of financial instruments and assets, some of which may be particularly sensitive to economic, market, industry, regulatory and other variable conditions. No assurance can be given as to when or whether adverse events might occur that could cause immediate and significant losses to the Funds.

***Risks Associated with the Riva Funds' Investment Approach.*** Abrams Capital believes that its investment philosophy and its process in making portfolio investments for the Riva Funds are different than most others in the alternative investment industry. Much of this stems from Abrams Capital's experience with the Abrams Funds and its intention to devote most of its time and attention to the Abrams Funds, which is consistent with each Riva Fund's philosophy that it is not searching actively for investments. Rather, the purpose of the Riva Funds is to create a pool of capital that enables such Funds to take advantage of investment opportunities when and if they arise. Accordingly, the Riva Funds may not invest all or even a substantial portion of their capital commitments prior to the expiration of their commitment periods (which commitment periods will vary among the Riva Funds), or they may rapidly deploy capital as investment opportunities arise and market conditions warrant. Abrams Capital expects that each Riva Fund will concentrate its investments in a limited number of portfolio investments and may seek to obtain a control position in some or all of such businesses. Furthermore, Abrams Capital does not expect to be actively involved with the day to day management of the portfolio investments, but expects to add value in other ways, including through its potential representation on the boards of directors of the issuers.

***Undervalued Assets.*** Abrams Capital's investment strategy focuses on investing in assets that it believes are undervalued. Opportunities in undervalued assets arise from market inefficiencies or due to a lack of wide recognition of the potential impact (positive or negative) that specific events or trends may have on the value of an asset. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such assets will be successfully recognized or acquired. While investments in undervalued assets offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses.

***Risk Arbitrage Transactions.*** Abrams Capital may purchase securities for a Fund at prices below their anticipated value following the occurrence of a predicted event, including proposed mergers, tender offers or similar transactions. The purchase price of such securities may be in excess of the market price of the securities immediately prior to the announcement of the proposed transaction. If the proposed transaction is not consummated or is delayed, the market price of the security may decline and result in losses to the Fund. In certain transactions, a Fund may not be hedged against market fluctuations unrelated to the anticipated transaction but which may affect the value of the

consideration to be received. This may result in losses, even if the proposed transaction is consummated.

***Investments in Distressed Assets.*** Abrams Capital invests in “below investment grade” securities and obligations of domestic and non-U.S. issuers that are in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence or other problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities and obligations are likely to be particularly risky investments. Some of these securities and obligations may not be publicly traded; therefore, it may be difficult to obtain information as to the true condition of the issuers. Additionally, during certain periods, there may be little or no liquidity in markets for these assets. Such investments also may be affected adversely 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’ assets 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 a Fund’s investment in any instrument, and a significant portion of a Fund’s investments may be less than investment grade. Any one or all of such investments may experience a partial or complete loss or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is high.

Many of the events within a bankruptcy case are adversarial, occasionally novel or unique and often are beyond the control of the creditors or other stakeholders. Accordingly, a bankruptcy court or appellate court may approve actions or issue decisions that impair the value of a Fund’s investment. Generally, the duration of a bankruptcy case can only be roughly estimated. The process can involve substantial legal, professional and administrative costs to the company and the Funds; it is subject to unpredictable and lengthy delays; and during the process the company’s competitive position may erode, key management may depart and the company may not be able to invest or manage its assets or business adequately.

There can be no assurance that Abrams Capital will correctly evaluate the value of the assets collateralizing a Fund’s position or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which a Fund invests, the Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Fund’s original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Fund’s investments may not compensate the Fund adequately for the risks assumed. 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

(for example, 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 to the Fund of the security in respect to which such distribution was made. In certain transactions, the Fund may not be “hedged” against market fluctuations or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

Troubled companies and other asset-based investments also require active monitoring and, at times, may require participation in business strategy or reorganization proceedings by Abrams Capital. To the extent that Abrams Capital becomes involved in such proceedings, the Fund may have a more active participation in the affairs of the issuer than that assumed generally by an investor. In addition, involvement by Abrams Capital in an issuer’s reorganization proceedings could result in the imposition of restrictions limiting the Fund’s ability to liquidate its position in the issuer.

***Risks Relating to Investments in Municipal Securities.*** Municipal issuers may be adversely affected by rising health care costs, increasing unfunded pension liabilities, and the phasing out of federal programs that provide financial support to municipalities. Unfavorable conditions and developments relating to projects financed with municipal securities can result in lower revenues to issuers thereof. Issuers often depend on revenues from these projects to make principal and interest payments. The value of municipal securities also can be adversely affected by changes in the financial condition of insurers of municipal issuers, regulatory and political developments, tax law changes or other legislative actions, and by uncertainties and public perceptions concerning these and other factors.

***Sovereign Debt.*** Sovereign debt instruments, which are debt obligations issued or guaranteed by a foreign governmental entity, are subject to the risk that the governmental entity may delay or fail to pay interest or repay principal on debt that it has issued or guaranteed, due to, for example, cash flow problems, insufficient foreign currency reserves, political considerations, relationships with other lenders such as commercial banks, the relative size of the governmental entity’s debt position in relation to the economy or the failure to put in place economic reforms required by the International Monetary Fund or other multilateral agencies. If a governmental entity defaults, it may ask for more time to pay or for further loans, or it may ask for forgiveness of interest or principal on its existing debt. Furthermore, a governmental entity may be unwilling to renegotiate the terms of its sovereign debt. There may be no established legal process for a bondholder to enforce its rights against a governmental entity that does not fulfill its obligations, nor are there bankruptcy proceedings through which all or part of the sovereign debt that a governmental entity has not repaid may be collected.

***Small and Mid-Cap Issuers.*** Depending on market conditions, pursuit of Abrams Capital’s investment strategy may result in a Fund’s assets being invested in securities of small-cap and mid-cap issuers. While, in Abrams Capital’s opinion, small and mid-cap companies generally offer the potential for greater capital appreciation than investments in

large-cap companies, small and mid-cap companies may present greater risks since they may have a limited history of operations and may be subject to high volatility in revenues, expenses and earnings. The securities of such issuers may be thinly traded, may be followed by fewer investment research analysts and may be subject to wider price swings than securities issued by larger-cap issuers. The market prices of securities of small and mid-cap issuers generally are more sensitive to changes in earnings expectations, to corporate developments and to market rumors than are the market prices of the securities of large-cap issuers.

**Hedging.** Abrams Capital may utilize various financial instruments in order to, among other things: protect against possible changes in the market value of a Fund's investment portfolio resulting from fluctuations in the securities markets and/or changes in interest rates; protect unrealized gains in the value of a Fund's investment portfolio; facilitate the sale of any such investments; enhance or preserve returns, spreads or gains on any investment in a Fund's portfolio; hedge the interest rate or currency exchange rate on any of a Fund's liabilities or assets; and/or protect against any increase in the price of any securities a Fund anticipates purchasing at a later date or for any other reason that Abrams Capital deems appropriate. The success of Abrams Capital's hedging strategy will be subject to its ability to correctly assess the degree of correlation, if any, between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of Abrams Capital's hedging strategy also will be subject to its ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. There also is a risk that such correlation will change over time rendering the hedge ineffective. Abrams Capital is not obligated to devote any portion of a Fund's capital to hedging activities, and there can be no assurances that Abrams Capital will engage in hedging or, if it does so, whether such activities will generate positive returns for a Fund. A Fund's portfolio is not expected to be hedged in whole or in part at all times and at various times Abrams Capital may elect to be more fully hedged and at other times hedged only to a limited extent, if at all. Accordingly, a Fund's assets may not be adequately protected from market volatility and other conditions. While Abrams Capital may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for a Fund than if it had not engaged in any such hedging transactions.

**Portfolio Liquidity and Transfer Restrictions – Abrams Funds.** Generally, Abrams Capital may invest a portion of each Abrams Fund's assets in securities and other assets for which there is limited or no liquidity, as to which third-party pricing is not readily available or deemed reliable, or that otherwise are determined by Abrams Capital to require a fixed or extended holding period. These securities and other assets generally are "side pocketed", in which case any investor capital attributable to such side pocketed investments generally will not be available to an investor upon redemption of its investment from the applicable Fund.

**Illiquid and Long-Term Investments – Riva Funds.** It is expected that it will take several years from the date of initial investment for the Riva Funds' investments to reach a



state of maturity at which time the Riva Funds could realize any gain or suspend any loss in value of an investment. Further, transaction structures may not provide for liquidity of the Riva Funds' investments prior to maturity or termination, if at all. In certain circumstances, it is expected that even after maturity there may be no readily available market for some of the portfolio investments made by the Riva Funds. Dispositions of such portfolio investments may require a lengthy time period or may result in distributions in kind to the investors. As a result of the expiration of a Riva Fund's term, the value at which portfolio investments may be sold, either by the Riva Fund or by investors after a distribution in-kind, may be lower than that which could be achieved if the applicable Riva Fund continued in existence.

For certain of the Riva Funds' investments, there may be little or no public market for such assets at the time of their acquisition. The Riva Funds generally will not be able to sell such assets publicly unless or until their sale is registered under applicable securities laws or an exemption from such registration requirements is available. In addition, in some cases the Riva Funds may be prohibited by contract from selling portfolio investments for a substantial period of time.

***Control Positions.*** From time to time, Abrams Capital may purchase a large enough position in an issuer to participate in its management and control. This may subject the Funds to certain risks. For example, the Funds may be subject to claims by other investors in the issuer who may, among other things, object to the manner in which Abrams Capital exercises its rights to participate in the management of the issuer. Creditors of the issuer might seek to hold the Funds responsible for obligations of the issuer. A controlling group of shareholders might be subject to claims against an issuer that arise in other areas, including, but not limited to, tort, securities and environmental law. Defending any such claims may be very costly and time-consuming and any liability in connection therewith could be substantial and may be borne by the Funds.

***Non-Controlling Investments.*** The Funds may hold non-controlling equity or debt interests in an issuer and, therefore, may have a limited ability to protect their investment in such company. In such circumstances, Abrams Capital may make as a condition of the Funds' investment in an issuer that the Funds obtain appropriate shareholder and supervisory rights in order to protect the Funds' interests. It is unlikely, however, that any such rights will be adequate to protect the ownership interest of the Funds in all circumstances.

***Service on Boards of Directors.*** Individual representatives of Abrams Capital may serve as a member of the board of directors of a company that is the issuer of securities owned by the Funds. In their capacity as board members, such individuals may become subject to fiduciary, reporting or other duties that may adversely affect the Funds. For example, the Funds may be unable to sell or buy securities or enter into transactions that may benefit the Funds if a representative of Abrams Capital is in possession of material, non-public information relating to such portfolio investment.

***Risks of Significant Holdings in Public Companies.*** The Funds will be subject to special risks when they (individually or in the aggregate) acquire more than five percent of a class of securities that is publicly traded in the United States or exceed certain ownership thresholds outside of the United States. Upon acquiring such a five percent interest, the Funds will become subject to reporting and other requirements under U.S. federal securities laws. When the Funds report that they acquired such an interest, they may become subject to litigation or other parties may seek to invest in the applicable company in competition with the Funds. The Funds' rights may also be limited by state anti-takeover laws. Other jurisdictions impose their own beneficial reporting obligations, which may subject the Funds to the same or similar risks as those described immediately above. Complying with the requirements of U.S. federal securities laws, non-U.S. securities laws, and state anti-takeover laws may be expensive and time-consuming.

***Material, Non-Public Information.*** From time to time, Abrams Capital and its affiliates may be in possession of material, non-public information concerning an issuer in which a Fund is invested, or as to which it is evaluating an investment. The possession of such information may limit the ability of Abrams Capital to make or dispose of an investment in such an issuer, including at a time when Abrams Capital might otherwise wish to cause the Funds to buy or sell such assets. Abrams Capital has policies and procedures in place that seek to ensure that its investment practices do not violate federal and state securities law prohibitions on trading on material, non-public information.

***International Investments.*** Abrams Capital may invest in issuers organized outside of the United States. Investments in countries other than the United States involve risks in addition to those applicable to U.S. investments, including risks attributable to adverse political, social and economic developments in other countries and risks resulting from the differences between the regulations to which issuers and markets are subject in different countries. These risks may include expropriation of assets, confiscatory taxation, withholding taxes on dividends and interest paid on Fund investments, currency exchange controls and other limitations on the use or transfer of Fund assets and political or social instability. Investments outside the United States also involve currency exchange rate risks. There may be rapid changes in the value of foreign currencies or securities, causing the value of Fund investments to be volatile.

***Emerging Market Securities.*** There are substantial risks involved in investing in companies located in underdeveloped or developing countries, which are sometimes referred to as "emerging markets." These risks are in addition to the usual risks inherent in international investments described above. Because of greater risks of adverse political developments, the lack of effective legal structures and difficulties effecting securities transfers and settlements, the Funds risk losing their entire investment when investing in companies located in certain emerging markets. Generally, emerging market debt securities are not required to meet any rating standards and may not be rated for creditworthiness by any internationally recognized credit rating organization. Emerging market debt securities rated in the lower and lowest rating categories of internationally recognized credit rating organizations and unrated securities of comparable quality are predominantly speculative with respect to the capacity to pay interest and repay principal

in accordance with their terms and generally involve a greater risk of default and volatility in price than securities in higher rating categories. The Funds may invest without limit in emerging markets.

***Investments in Options.*** Investing in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset, or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor's entire investment (i.e., the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (i.e., sold) uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value. Over-the-counter options that Abrams Capital may use in its investment strategies generally are not assignable except by agreement between the parties concerned, and no party or purchaser has any obligation to permit such assignments. The over-the-counter market for options may be relatively illiquid, particularly for relatively small transactions.

***Other Derivative Investments.*** Derivative instruments, or "derivatives," include futures, options, swaps (including credit default, total return, equity, interest rate, currency and index swaps), structured securities and other instruments and contracts that are derived from or the value of which is related to one or more underlying securities, financial benchmarks, commodities, currencies, indices, or other assets. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark, commodity, currency, index, or other asset at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are leveraged, and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement may result in the loss of the entire investment and also expose the applicable Fund to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts. Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty.

Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily

limit, positions in the future can neither be established nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent Abrams Capital from promptly liquidating unfavorable positions and subject a Fund to substantial losses.

**Counterparty Risk.** Some of the markets in which Abrams Capital may effect transactions on behalf of the Funds are “over-the-counter” or “interdealer” markets. Certain participants in such markets are not subject to the credit evaluation and regulatory oversight to which members of “exchange-based” markets are subject. This exposes the 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 Funds to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Funds have concentrated their transactions with a single or small group of counterparties. Counterparties in foreign markets face increased risks, including the risk of being taken over by the government or becoming bankrupt in countries with limited if any rights for creditors. Abrams Capital is not restricted from concentrating any or all of the Funds’ transactions with one counterparty. Abrams Capital’s evaluation of the creditworthiness of the Funds’ counterparties or negotiation of contractual terms may not prove sufficient. The ability of the Funds to transact business with any one or number of counterparties and the lack of a complete and accurate evaluation of the financial capabilities of the Funds’ counterparties may increase the potential for losses by the Funds.

**General Economic and Market Conditions.** The success of Abrams Capital’s activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Funds’ investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect, among other things, the level and volatility of asset prices, the liquidity of the Funds’ investments and the availability of certain assets. Volatility or illiquidity could impair the Funds’ profitability or result in losses. The Funds may maintain substantial trading positions that can be materially adversely affected by the level of volatility in the financial markets — the larger the positions, the greater the potential for loss.

Global capital markets experienced unprecedented volatility and illiquidity in recent years. The effects thereof are continuing and there can be no assurance that the Funds will not be materially adversely affected. These conditions have led to extensive governmental interventions. Such interventions have in certain cases been implemented on an “emergency” basis, suddenly and substantially eliminating market participants’ ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition — as one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action — these interventions have typically been unclear in scope and application, resulting in confusion and uncertainty. It is impossible to predict what additional interim or permanent

governmental restrictions may be imposed on the markets and/or the effect of such restrictions on Abrams Capital's strategies.

The ultimate effect of recent market disruptions and government actions cannot be predicted. New market reversals could result in further declines in the market values of potential or actual investments. Such declines and/or government actions could lead to diminished investment opportunities either generally or for the Fund specifically, impact the viability of various investment strategies or require the disposition of investments at a loss.

***Concentration of its Investments.*** Abrams Capital may commit a significant portion of each Fund's assets to a single investment and, as a result, from time to time the Funds may hold a few, relatively large positions. Furthermore, the Funds may, from time to time, be more heavily invested in only a few sectors or asset classes based on prevailing market conditions. Such concentration of investments and the risks associated therewith may expose the Funds to losses disproportionate to those incurred by the market in general if the areas in which the Funds' investments are concentrated are disproportionately adversely affected by price movements, and the aggregate return on an investor's investment in a Fund may be materially adversely affected by the unfavorable performance of even a single portfolio investment. None of the Funds should be viewed as a complete investment program and the Funds will not be adequately diversified in all market conditions.

***Structured Investments.*** Abrams Capital may invest in structured investment vehicles from time to time. Such investments are subject to a number of risks, including the structured products potential use of leverage. Utilization of leverage is a speculative investment technique that generally magnifies the opportunities for gain and risk of loss borne by an investor in the structured product. Many structured products contain covenants designed to protect the providers of debt financing to such structured products. A failure to satisfy those covenants could result in the untimely liquidation of the structured product and a complete loss of a Fund's investment therein. In addition, if the particular structured product is invested in a security in which a Fund is also invested, this would tend to increase such Fund's overall exposure to the credit of the issuer of such securities, at least on an absolute, if not relative, basis.

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

product. Furthermore, there are certain tax and market uncertainties that present risks relating to investing in structured products.

***General Real Estate Risks.*** Real estate investments generally are subject to the risks incident to the ownership and operation of real estate and/or risks associated with the making of nonrecourse mortgage loans secured by real estate, including (i) risks associated with both the domestic and international general economic climate; (ii) local real estate conditions; (iii) risks due to dependence on cash flow; (iv) risks and operating problems arising out of the absence of certain construction materials; (v) changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); (vi) the financial condition of tenants, buyers and sellers of properties; (vii) changes in availability of debt financing; (viii) energy and supply shortages; (ix) changes in the tax, real estate, environmental and zoning laws and regulations; (x) various uninsured or uninsurable risks; (xi) natural disasters; and (xii) the ability of Abrams Capital or third-party borrowers to manage the real properties. With respect to investments in the form of real property owned by a Fund, the Fund will incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property. With respect to investments in equity or debt securities, the Fund will in large part be dependent on the ability of third parties to successfully operate the underlying real estate assets. There is no assurance that there will be a ready market for resale of investments because investments in real estate generally are not liquid.

***Commercial Mortgage-Backed Securities.*** A Fund's portfolio may include commercial mortgage-backed securities, which are securities backed by obligations (including certificates of participation in obligations) that are principally secured by interests in real property having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers. Commercial mortgage-backed securities have been issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. Commercial mortgage loans generally lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the repayment of all or substantially all of the principal only at maturity. All of these factors increase the risk involved with commercial real estate lending. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one-to-four family lending since it typically involves larger loans to a single borrower than residential one-to-four family lending.

Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on a loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related

real estate project as well as upon the liquidation value of the underlying real estate. The value of commercial real estate is also subject to a number of laws and regulations, such as regulations and laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

Most commercial mortgage loans underlying mortgage-backed securities are effectively non-recourse 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 mortgage-backed securities are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of mortgage-backed securities may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed-in-lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related mortgage-backed securities. Revenues from the assets underlying such mortgage-backed securities may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

Commercial mortgage-backed securities may pay fixed or floating rates of interest. Fixed-rate commercial mortgage-backed securities, like all fixed income securities, generally decline in value as rates rise. Moreover, although generally the value of fixed income securities increases during periods of falling interest rates, the inverse relationship may not be as marked in the case of commercial mortgage-backed securities due to the increased likelihood of prepayments during periods of falling interest rates. This effect is mitigated to some degree for mortgage loans providing for a period during which no prepayments may be made.

Certain commercial mortgage-backed securities lack regular amortization of principal, resulting in a single "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default.

***Residential Mortgage-Backed Securities.*** A Fund's portfolio may include residential mortgage-backed securities ("RMBS"). Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans that are generally 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, although such loans may be securitized by government agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, 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 loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

Further, each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates, conditions in credit markets and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

Certain mortgage loans may be of sub-prime credit quality. Originators of loans make sub-prime mortgage loans to borrowers that typically have limited access to traditional mortgage financing for a variety of reasons, including impaired or limited past credit history, lower credit scores, high loan-to-value ratios or high debt-to-income ratios. As a result of these factors, delinquencies and liquidation proceedings are more likely with sub-prime mortgage loans than with mortgage loans that satisfy customary credit standards. Another factor that may result in higher delinquency rates is the increase in monthly payments on adjustable rate mortgage loans.

**Bank Loans.** Abrams Capital expects to invest from time to time in corporate bank debt and participations therein ("Bank Loans") originated by banks and other financial institutions. The Bank Loans in which the Funds invest are primarily term loans that pay interest at a fixed or floating rate and may be senior or subordinated. Purchasers of Bank Loans are predominantly commercial banks, investment funds and investment banks and there can be no assurance that current levels of supply and demand in Bank Loan trading will provide an adequate degree of liquidity. The Funds acquire interests in Bank Loans either directly (by way of assignment) or indirectly (by way of participation or other derivative contract). The assignee of a Bank Loan typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest,



not with the borrower. In purchasing participations and other derivatives, Abrams Capital on behalf of the Funds generally has no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, and the Funds may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Funds will assume the credit risk of both the borrower and the institution selling the participation or other derivative contract.

As a result of the additional debt incurred by the borrower, the borrower's creditworthiness is often judged by the ratings agencies to be below investment grade. The Bank Loans expected to be acquired by the Funds are likely to be below investment-grade and may not be rated. To the extent that the Funds purchase Bank Loans that include revolving credit facilities, the Funds may be obligated to fund future drawdowns on such revolving credit facilities, which may require the Funds to invest additional capital in an issuer at a time when it might otherwise choose not to invest, absent such requirement to fund.

***Third Party Investment Vehicles.*** The Funds may invest in pooled investment vehicles (both publicly traded and privately held) managed by investment advisers that are not affiliated with Abrams Capital (each, an "Unaffiliated Fund"). Such Unaffiliated Funds may invest in a wide variety of securities and assets. No assurance can be given that the investment strategies used by such Unaffiliated Funds will be successful under all or any market conditions. The Funds' investments in Unaffiliated Funds may be subject to withdrawal limitations that could prevent the Funds from terminating investments in Unaffiliated Funds that are poorly performing or have otherwise had adverse changes, although in certain instances the Funds have negotiated terms that seek to minimize such risks. Investments in Unaffiliated Funds also may result in the payment by the Funds directly or indirectly of management fees and carried interest or promote to third parties. Investments in Unaffiliated Funds may result in Abrams Capital and its affiliate not having full control over the assets of the Funds, which lack of control represents a significant risk.

## **Item 9 – Disciplinary Information**

Abrams Capital is not aware of any legal or disciplinary events that are material to a client's or prospective client's evaluation of Abrams Capital's advisory business or the integrity of Abrams Capital's management.

## **Item 10 – Other Financial Industry Activities and Affiliations**

We are affiliated with a group of entities (identified below) that serve as the general partner to one or more of the Funds.

- Abrams Capital, LLC serves as the general partner to Abrams Capital Partners I, L.P., Abrams Capital Partners II, L.P. and Whitecrest Partners, LP;

- Great Hollow Partners, LLC serves as the general partner to Great Hollow International, L.P.;
- Riva Capital Management, LLC serves as the general partner to Riva Capital Partners, L.P.;
- Riva Capital Management II, LLC serves as the general partner to Riva Capital Partners II, L.P.; and
- Riva Capital Management III, LLC serves as the general partner to Riva Capital Partners III, L.P.

Abrams Capital and its management persons are not registered, and do not have any application pending to register, with the SEC as a broker-dealer or a registered representative of a broker-dealer.

Abrams Capital and its management persons are not registered, and do not have any application pending to register, with the CFTC as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

Abrams Capital, from time to time, may select other third-party investment advisers to manage a portion of a Fund's assets or may invest in partnerships or joint ventures with other investment advisers, which may result in the payment of additional management fees, carried interests or performance allocations to such advisers.

### **Potential Conflicts of Interest**

Abrams Capital is the investment manager to the Abrams Funds and the Riva Funds. All of the Abrams Funds have similar investment objectives and strategies. Accordingly, similar investments may be made for all of the Abrams Funds; however, such investments are not required to be the same, particularly when tax, regulatory, portfolio concentrations, investment restrictions, anticipated capital changes or other matters make such investments inadvisable.

The Riva Funds focus on private equity-type investments as well as investments in publicly traded and private securities. Although the Abrams Funds generally pursue a broader investment strategy than that of the Riva Funds, the Abrams Funds are expected to invest in all or a substantial portion of the portfolio investments of the Riva Funds and the Abrams Funds generally have priority with respect to allocations thereof, subject to certain limitations, including the Abrams Funds' investment limitation on side pockets.

Abrams Capital, the general partners, their affiliates, and their respective officers, directors, members, managers, and employees may engage in other activities, including providing investment management and advisory services to other accounts, and are not required to

refrain from any activity, to disgorge profits from any such activity or to devote all or any particular amount of time or effort to any Fund.

As discussed in **Item 11** below, subject to compliance with applicable law and the provisions of Abrams Capital's code of ethics, including pre-clearance requirements for purchases and sales of certain securities, Abrams Capital, the general partner entities, their affiliates, and their respective officers, directors, members, partners, managers and employees may trade in securities for their own accounts.

David Abrams is currently a director of CC Media Holdings, Inc. and several private companies and he (as well as other investment professionals of Abrams Capital) may serve as a member of other boards of directors in the future, including boards of companies in which the Funds have invested. In their capacity as board members, Mr. Abrams or the firm's other investment professionals may become subject to fiduciary, reporting or other duties that may adversely affect the Funds. For example, the Funds may be unable to sell securities if Mr. Abrams is in possession of material, non-public information relating to such investment. There is no assurance that the Funds will be or will continue to be, as applicable, invested in a company for which Mr. Abrams or another investment professional of Abrams Capital or its affiliates serves as a director.

Investors in the Abrams Funds are subject to significant restrictions on their ability to withdraw capital from the applicable Abrams Fund. The general partner of the Abrams Funds (or, in the case of Abrams Capital International, its board of directors) has the right, in its sole discretion, to waive or alter some or all of the applicable liquidity restrictions (e.g., lock-up period, notice requirements, etc.) for investors in the Abrams Funds. Employees of Abrams Capital and its affiliates who are investors in the Abrams Funds generally are permitted by the general partner of the Abrams Funds to withdraw capital from such Funds at the end of a month upon request (excluding any capital attributable to side pockets).

Valuations of the Funds' assets are determined by Abrams Capital and its affiliates, and may involve uncertainties and judgmental determinations. The compensation of Abrams Capital and its affiliates is based upon the value of the Funds' assets in many instances.

Information received by Abrams Capital with respect to certain investments and potential investments could restrict the Fund's ability to engage in certain trading activities. If Abrams Capital, its affiliates, or any of their respective members, partners, or employees receive information they deem material and non-public, whether in connection with the Funds' activities or otherwise, the Funds would become restricted from trading in any publicly issued securities of such companies. These restrictions on the ability of the Funds to make or unwind its investments because of the receipt of material, non-public information could have material adverse consequences for the Funds.

For certain of the Funds, Abrams Capital monitors on an on-going basis the tax characteristics of such Funds' investment activities and portfolio. Occasionally, the timing and substance of investment and trading decisions of Abrams Capital may be influenced by

the expected tax results for such Funds and their investors that may arise as a result of such decisions. There can be no guaranty that such decisions will result in the expected tax results, nor will all investors necessarily benefit from such decisions, based on their individual tax situations. In seeking to improve the tax efficiency of their investment activities, the Funds may be exposed to risks that may not have occurred in the absence of such tax considerations, such as changes in market prices and liquidity. Investors that are exempt in whole or in part from taxation may not benefit from tax considerations that are designed to minimize U.S. taxation and may bear the risks of such considerations.

From time to time, we may execute cross transactions between two or more Funds for a variety of reasons, including, without limitation, to rebalance one or more portfolios without incurring the transaction costs that may arise in an open market transaction. Abrams Capital will only effect a cross transaction when it deems the transaction to be in the best interests of all of the participating Funds and taking into account Abrams Capital's duty to seek "best execution" for all participating Funds. Abrams Capital does not receive any compensation in connection with cross transactions.

"Inadvertent" cross transactions also may occur when trades cross in the market. For example, in rare instances certain Funds may sell securities into the market at the same time that other Funds are purchasing the same securities in the market, resulting in an inadvertent or "deemed" market cross. In these cases, an independent broker-dealer establishes the price for the transaction and Abrams Capital does not instruct the broker to directly move positions between the Funds' accounts.

### **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Abrams Capital has adopted a code of ethics pursuant to Rule 204A-1 under the Investment Advisers Act. The code is based on the principle that each supervised person of Abrams Capital has a fiduciary duty (i) to act in the best interest of the Funds, (ii) to conduct his or her affairs, including personal securities transactions, in such a manner as to avoid serving his or her own personal interests ahead of those of the Funds, and (iii) to avoid conflicts of interest. Pursuant to the code, each supervised person of Abrams Capital is required to comply with all applicable laws and regulations and acknowledge in writing his or her receipt and understanding of the code upon joining Abrams Capital and annually (or as amended) thereafter.

Abrams Capital's code of ethics contains guidelines relating to personal trading by supervised persons. No supervised person may purchase or sell any security in which he or she has, or by reason of such transaction acquires, any direct or indirect beneficial ownership that would be harmful to any of the Funds or that would serve such supervised person's own personal interests ahead of the Funds. Each supervised person must receive prior approval before purchasing or selling securities for his or her own account (other than certain exempted securities, which include direct obligations of the United States of

America, commercial paper, shares issued by money market funds, certain ETFs, and shares issued by open-end mutual funds). The code of ethics also requires supervised persons to provide Abrams Capital with quarterly transaction and annual holdings reports.

The code of ethics includes specific provisions prohibiting insider trading and also addresses (i) the ability of a supervised person to serve on the board of directors of a publicly traded company, (ii) the giving and acceptance of gifts and/or entertainment from certain third parties, and (iii) confidentiality of client and investor information.

All violations of the code of ethics must be promptly reported to Abrams Capital's Chief Compliance Officer, who is primarily responsible for administering and enforcing the code of ethics.

Clients may obtain a full copy of Abrams Capital's code of ethics by contacting Abrams Capital at the following address:

Abrams Capital Management, L.P.  
222 Berkeley Street, 22nd Floor  
Boston, Massachusetts 02116  
Attention: Chief Compliance Officer  
Telephone: 617-646-6100

From time to time, supervised persons of Abrams Capital may invest in securities held by one or more Funds and, in certain instances, the value of such supervised person's holdings in such securities may be considered material. This practice may present certain potential conflicts of interest between the supervised person and the Funds. For example, the supervised person's research about a particular issuer may cause him or her to believe that the company is no longer a sound investment for either the Funds or himself or herself. This poses of potential conflict of interest because if the supervised person takes action on behalf of the Funds, such action could cause his or her investment in the issuer to become less valuable, whereas a delay in taking action on behalf of the Funds could have a negative impact on the Funds. In order to address the potential conflicts of interest, Abrams Capital's code of ethics includes a pre-approval process for transactions in a supervised person's personal account, which is described in more detail below. Additional potential conflicts of interest presented by personal trading generally are described in this Item 11 below.

Each supervised person must submit a request for approval before he or she enters into a transaction for his or her personal account (subject to limited exceptions previously described in this Item 11). In the request, the supervised person must represent if he or she is aware that the applicable security is actively being considered for purchase or sale for any Fund within 5 calendar days after the date the proposed transaction in the security is expected to occur. The supervised person must submit an approval request to an Abrams Capital trader, who determines if there is a trade pending for any Fund in any security of the issuer of the security for which pre-approval is being sought. If the trader

determines that there is no trade pending, the pre-approval request is submitted to the Chief Compliance Officer for review. If there is a pending trade, the trader will reject the request, subject to limited exceptions.

Upon receipt of the pre-approval request, the Chief Compliance Officer will either approve or deny the supervised person's proposed transaction. Such approval or denial is based on the standards set forth in Abrams Capital's code of ethics. The Chief Compliance Officer may consider a number of factors when deciding whether or not to approve the request, including whether or not (i) he believes that the proposed transaction will have a material impact on the market or the Funds, and (ii) one or more of the Funds expects to trade the applicable security within 5 calendar days after the anticipated trade date of the supervised person's proposed transaction in the security.

Furthermore, the code of ethics expressly requires supervised persons responsible for making investment recommendations or decisions for a Fund to put the Fund's interest before his or her own interests. In addition, the code requires such supervised persons to promptly make any investment recommendation or decision that is in the Fund's interest rather than delaying the recommendation or decision for the Fund.

## **Item 12 – Brokerage Practices**

Abrams Capital is responsible for selecting broker-dealers to execute trades and negotiating any commissions paid on such trades on behalf of the Funds. In selecting a broker for each specific Fund portfolio transaction, Abrams Capital will use its best judgment to choose the broker-dealers most capable of providing "best execution" on an overall basis. As a matter of policy, however, broker-dealers will not be selected by Abrams Capital solely on the basis of price, but will be selected based on an evaluation by Abrams Capital of the overall value and quality of the brokerage services provided by such firms to the Funds. For example, Abrams Capital also takes into account the financial strength, integrity and stability of the broker-dealers who execute trades on behalf of the Funds, as well as the quality, comprehensiveness and frequency of available research and other products and services considered to be of value, as discussed in more detail below.

Part of Abrams Capital's duty to the Funds is to negotiate favorable commission rates on transactions that it places with broker-dealers. Abrams Capital seeks to obtain favorable commission rates on transactions it places for the Funds, subject in all cases to the overriding obligation to seek best execution. As noted above, best execution does not necessarily mean paying the lowest available commission rate. In fact, Abrams Capital may cause the Funds to pay a higher brokerage commission than would otherwise be paid, in recognition of execution and research services provided to Abrams Capital by the broker-dealer, subject to the factors and limitations described herein.

From time to time, Abrams Capital may receive products or services other than execution from a broker-dealer or other third party in connection with Fund transactions. Such products and services may include, among other things, written information and analyses

concerning specific securities, companies or sectors; market, financial, political, and economic studies and forecasts; facilitating analyst visits, discussions with research personnel, special execution capabilities, and the availability of stocks to borrow for short sales. Research products and services received by Abrams Capital may be the proprietary research of a particular broker-dealer or research created or developed by a third party. Abrams Capital is authorized to pay higher prices for the purchase of securities from or accept lower prices for the sale of securities to brokerage firms that provide it directly, or indirectly through commission sharing arrangements, with such research and other products and services or to pay higher commissions to such firms, if Abrams Capital determines such prices or commissions are reasonable in relation to the overall services provided. Accordingly, the Funds may be deemed to be paying for research and other products and services with "soft" or commission dollars. To the extent that Abrams Capital uses commissions or "soft dollars" to pay for products or services, it is anticipated that such uses will fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934. Under Section 28(e), research obtained with soft dollars generated by a Fund may be used by Abrams Capital to service accounts other than such Fund. Where a product or service obtained with soft dollars provides both research and non-research assistance to Abrams Capital, Abrams Capital will make a reasonable allocation of the cost that may be paid with soft dollars. Non-permitted uses based on this allocation will be paid by Abrams Capital without the use of soft dollars.

Abrams Capital benefits from the use of soft dollar arrangements because it does not have to produce or pay for the research or other products and services acquired with soft dollars. Furthermore, Abrams Capital may have an incentive to select a broker-dealer based on Abrams Capital's interest in receiving the research or other products or services from such broker-dealer rather than the Funds' interests in receiving most favorable execution. Abrams Capital uses soft dollars to benefit all of the Funds rather than only those who paid for the benefit, although in many instances all of the Funds participating in a particular trade pay their pro rata portion of the commissions or mark-ups/downs, as applicable, that generate soft dollar credits. The use of soft dollars may give Abrams Capital an incentive to select brokers or dealers for transactions of the Funds, or to negotiate commission rates or other execution terms, in a manner that takes into account the soft dollar benefits received by Abrams Capital rather than giving exclusive consideration to the interests of the Funds.

Abrams Capital aggregates trades for the Funds, unless it believes that doing so would conflict or otherwise be inconsistent with its duty to seek best execution for the Funds and/or the terms of the respective investment management and other agreements and understandings relating to the Funds for which trades are being aggregated. When Abrams Capital believes that it can effectively obtain best execution for the Funds by aggregating trades, it will do so for all Funds for which the trades are both suitable and consistent with the respective investment management agreements, investment guidelines, and other agreements and understandings relating to such Funds, unless prohibited or restricted by law, contract, or otherwise.

Abrams Capital's overall objective when allocating trades among the Funds is to treat each Fund in a fair and equitable manner, depending on the particular facts and circumstances and the needs and financial objectives of all of the Funds, such that allocations are not based upon account performance, applicable fee structures or the appearance of otherwise preferential treatment, and tradable position sizes are retained in each Fund. Generally, trades are allocated pro rata among the Abrams Funds, however, from time to time trades will be allocated in some other manner for a number of reasons, including capital availability of one or more Funds, concentration limits, investment restrictions, and legal, regulatory, tax, accounting and other practical reasons. As discussed above, the Riva Funds were created as "overflow" vehicles for situations in which the opportunity presented is larger than can be accommodated in the Abrams Funds; thus, there are situations where an investment opportunity is allocated only to the Abrams Funds and not the Riva Funds.

On occasion, errors may occur with respect to trades executed on behalf of the Funds. Trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, when the correct security is purchased or sold but for the wrong account, and when the wrong quantity is purchased or sold (e.g., 5,000 shares instead of 50,000 shares are traded). Abrams Capital will endeavor to detect trade errors prior to settlement and correct and/or mitigate them in an expeditious manner. To the extent an error is caused by a third party, such as a broker, Abrams Capital will strive to recover any losses associated with such error from such third party. If the trade error was caused by Abrams Capital, the Firm will determine whether it violated the standard of care set forth in its investment management agreement with the applicable Fund(s), and, unless it finds that to be the case, any losses likely will be borne by the Funds (subject in certain instances to insurance claims by the Funds that may offset any such losses). Any gains resulting from trade errors will be credited to the applicable Funds.

### **Item 13 – Review of Accounts**

The portfolios of the Funds are managed by David Abrams, who is the managing member of the general partner of Abrams Capital. Each Fund's portfolio is periodically reviewed by David Abrams and other members of Abrams Capital, including: (i) traders and research analysts who monitor and review positions and risk on a daily basis, (ii) operations staff who are responsible for confirmations, settlements, and position reconciliation on a daily basis, (iii) finance and accounting staff who perform daily cash, liquidity, and collateral management, allocate profits and losses among investors in the Funds, calculate the net asset value of each Fund, monitor investor capital account balances, and calculate and accrue management fees and performance-based compensation due Abrams Capital and its affiliates, among other things, and (iv) legal and compliance staff who support investment management personnel and monitor regulatory risks, among other things.

Abrams Capital intends to distribute to investors in the Funds (i) audited financial statements within 120 days of the end of the fiscal year of the applicable Fund (subject to Item 15 below); and (ii) quarterly, unaudited account statements. In addition, investors



receive letters from Abrams Capital (quarterly for investors in the Abrams Funds; annually at a minimum for investors in the Riva Funds) that discuss the investment performance of the Funds for the applicable period, current investment positioning of the Funds, and certain administrative matters related to Abrams Capital. Finally, investors in the Abrams Funds receive on a monthly basis estimated statements of the performance of the Funds for the previous month, which includes asset allocation details for the Funds.

#### **Item 14 – Client Referrals and Other Compensation**

Abrams Capital does not receive any economic benefit from anyone other than its clients as a result of the provision of investment advice or other advisory services to the Funds. Furthermore, neither Abrams Capital nor any related person of Abrams Capital directly or indirectly compensates any person who is not a supervised person of Abrams Capital for client or investor referrals.

#### **Item 15 – Custody**

The Funds contract with third-party custodians and a prime broker to serve as custodian for publicly-traded securities owned by the Funds and certain private securities and assets. The Funds do not use a qualified custodian to send quarterly account statements directly to the investors in the Funds. Instead, each Fund expects to distribute to its investors annual financial statements that are audited by an independent public accounting firm that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, within 120 days of the Funds' fiscal year-end. Notwithstanding the foregoing, in certain instances, a Fund may distribute its annual financial statements to investors within 180 days of such Fund's fiscal year-end if the Fund invests 10% or more of its total assets in unaffiliated pooled investment vehicles.

Abrams Capital urges investors to carefully review the audited financial statements of the Funds in which they are invested.

#### **Item 16 – Investment Discretion**

Abrams Capital has discretionary authority to manage the assets of the Funds in a manner that is consistent with the objectives and strategies set forth in the applicable Fund's offering documents. This authority is granted by each Fund to Abrams Capital pursuant to the investment management agreement between the applicable Fund and Abrams Capital.

Except as set forth above, there are no limitations placed on this authority.

## Item 17 – Voting Client Securities

Abrams Capital has adopted proxy voting policies and procedures pursuant to Rule 206(4)-6 under the Investment Advisers Act. Proxies are assets of the Funds that must be voted with diligence, care, and loyalty. Abrams Capital votes each proxy in accordance with its fiduciary duty to the Funds. Abrams Capital generally seeks to vote proxies in a way that maximizes the value of the Funds' assets.

The right to vote proxies on behalf of the Funds has been delegated to Abrams Capital pursuant to its investment management agreement with each Fund. Neither the Funds nor the investors in the Funds may direct Abrams Capital's vote in connection with any particular proxy solicitation.

Abrams Capital considers whether it is subject to any material conflict of interest in connection with each proxy vote. Employees are required to notify David Abrams if they are aware of any material conflict of interest associated with a proxy vote. If Abrams Capital detects a material conflict of interest in connection with a proxy solicitation, a meeting of Abrams Capital's Proxy Voting Committee is convened to determine how it should vote on the proxy in question.

Abrams Capital is authorized by each Fund to direct its participation in class actions, and Abrams Capital has adopted Class Action policies and procedures in connection therewith. Pursuant to such policies and procedures, Abrams Capital determines whether the Funds will (a) participate in a recovery achieved through a class action, or (b) opt out of the class action and separately pursue their own remedy. Furthermore, employees are required to notify David Abrams if they are aware of any material conflict of interest associated with a Fund's participation in class actions. The Proxy Voting Committee will evaluate any such conflicts and determine an appropriate course of action for Abrams Capital. Investors that have completely withdrawn from a Fund do not receive any of the proceeds paid to the Fund from class action recoveries even if such investors were invested in the applicable Fund at the time the event that resulted in the lawsuit occurred, at the time the class action was filed, or at any time thereafter.

Clients may obtain a full copy of our proxy voting and class action policies and procedures and/or a record of proxy votes by contacting Investor Relations at the following address:

Abrams Capital Management, L.P.  
222 Berkeley Street, 22nd Floor  
Boston, Massachusetts 02116  
Attention: Director of Investor Relations  
Telephone: 617-646-6100

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about the adviser's financial condition. Abrams Capital is not required to include a balance sheet for its most recent fiscal year. Abrams Capital has no financial commitment that is reasonably likely to impair its ability to meet contractual commitments to its clients, and has not been the subject of a bankruptcy proceeding at any time during the past ten years.

## **Item 19 – Requirements for State Registered Advisers**

Abrams Capital is not registered with any State as an investment adviser.