

FIRM BROCHURE

**P&S Credit Management, L.P.
d/b/a
Gracie Asset Management**

December 2012

This brochure provides information about the qualifications and business practices of P&S Credit Management, L.P. d/b/a Gracie Asset Management.

If you have any questions about the contents of this brochure, please contact us at (212) 319-8000 or email: compliance@graciecap.com.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training.

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

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Item 2. Material Changes

The following is a material change since our initial firm brochure dated February 2012:

The macro strategy portion of our firm's client portfolios and funds is managed by Eric Fitzgerald as of December 20, 2012. Manbir Singh, the previous portfolio manager of the macro strategy, is no longer with our firm as of December 10, 2012. Since 2005, Mr. Fitzgerald held the position of Senior Analyst within the macro strategy team. We considered this change a "Key Person Event" and all fund investors were notified in writing in addition to this disclosure brochure update.

In addition, Eric Fitzgerald and Pedro Arellano replaced Manbir Singh as members of the P&S management committee.

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Item 4. Advisory Business***A. General Description of Advisory Firm***

P&S Credit Management, L.P. (“P&S” or “we/us”) is an investment advisor with its principal place of business in New York, New York. We have also filed for registration as a registered commodity pool operator and commodity trading advisor with the CFTC. P&S conducts its business under the name Gracie Asset Management (“Gracie”) and holds itself out as such. This document will refer to our firm under its legal name of P&S. P&S commenced operations as an investment advisor in June 2004 and currently provides discretionary advisory services to hedge funds (the “Funds”) and separately managed accounts (together with the Funds, “Clients”). Hedge funds are privately offered pooled investment vehicles intended for sophisticated high net worth and institutional investors. P&S’ separately managed accounts are separate client accounts managed on behalf of private institutional clients.

On November 1, 2010, Moelis & Company Gracie Holdings LLC, a subsidiary of Moelis & Company Holdings LP (“Moelis Holdings”), purchased all of the equity interests in P&S and in P&S Credit Partners, LLC (the “General Partner”), the general partner of certain Funds. Kenneth Moelis holds the managing member interest in Moelis & Company Manager LLC, the sole member of Moelis & Company Holdings GP LLC, which is the entity that, as general partner of Moelis Holdings, controls Moelis Holdings and all its subsidiaries.

Certain books and records of P&S and some Client materials may refer to us as Gracie, our d/b/a name.

B. Description of Advisory Services

P&S provides investment advisory services to its Clients and is responsible for all day-to-day investment and trading decisions. P&S is focused primarily on making investments in various credit instruments.

The Funds consist of Gracie Credit Opportunities Fund, L.P. (the “U.S. Fund”), Gracie International Credit Opportunities Fund, Ltd. (the “Offshore Fund”) and Gracie Credit Opportunities Master Fund, L.P. (the “Master Fund”). Investors make investments in the U.S. Fund and the Offshore Fund (the “Feeder Funds”), and substantially all of the assets of the Feeder Funds are invested in the Master Fund. Fund portfolio holdings are assets of the Master Fund.

C. Availability of Tailored Services for Individual Clients

Beneficial owners of separately managed accounts may impose restrictions on investing in certain securities. Those restrictions are outlined in the Investment Management Agreement (a negotiated agreement between the Client and P&S) or other account related documentation. The Funds are managed on a collective basis pursuant to the investment objectives and strategies set forth in the Confidential Offering Memorandum for each Fund.

Please see Item 8 for a general description of the Funds' investment strategy.

D. Wrap Fee Programs

This item is not applicable as we do not offer any wrap fee programs.

E. Client Assets Under Management

As of December 31, 2011, P&S had approximately \$3,913,044,825 of assets under management on a discretionary basis.

Item 5. Fees and Compensation

A. Advisory Fees and Compensation

P&S receives a management fee from its Clients for investment management services pursuant to its Investment Management Agreement ("IMA") (the "Management Fee"). Performance based compensation is also received and detailed in each Client's IMA.

The Management Fee received from each Feeder Fund is payable quarterly in advance in an amount equal to 0.50% of each investor's capital account or share value at the beginning of each calendar quarter (2.0% annualized). With respect to certain investors whose initial subscriptions in the Feeder Funds equal or exceed \$125,000,000, the Management Fee is equal to 0.375% of each such investor's capital account or share value at the beginning of each calendar quarter (1.5% annualized). The Management Fee will be pro-rated to take into account initial or additional subscriptions made other than on the first day of a calendar quarter. The amount of the Management Fee is billed to each Feeder Fund and paid following the beginning of each quarter (or following such other dates when investments are made to the Feeder Funds). A pro rata portion of the quarterly management fees will not be refunded if an investor withdraws capital other than on the last day of a calendar quarter. This practice applies to our Feeder Funds only and is disclosed in our Confidential Offering Memorandum ("COM").

The Separate Accounts

The separately managed accounts pay both Management Fees and performance based fees that are negotiated with each client and outlined in the corresponding IMA with each client. Currently, separate account management fees range from 1.0% to 2.0% annually. For separately managed accounts, the performance based compensation is referred to as an Incentive Allocation. Incentive Allocations range from 10% to 20% and are subject to "hurdles" or "high watermark" provisions. Clients are encouraged to read and understand their IMAs which outline the specific details of how both the negotiated Management Fee and Incentive Allocations are calculated on their account.

Below are examples of how Incentive Allocations may be applied to separate accounts:

Account A pays a Management Fee quarterly in arrears in an amount (accrued monthly) equal to one-twelfth (1/12th) of 2.0% of the net asset value of Account A as of the last day of a calendar month (adjusted for contributions made on a day other than the first day of a calendar month). Account A pays an Incentive Allocation equal to 20.0% of the aggregate net realized and unrealized changes in the value of Account A at the end of a fiscal year net of all other income and expenses (including the Management Fee) of any kind for such period (collectively “Net Profits”), and subject to the “high watermark” provision discussed below. If withdrawals are made from Account A prior to the end of a fiscal year, an Incentive Allocation on the withdrawn amount will be taken at that time.

The “high water mark” for Account A is defined as the net asset value of Account A as of the end of the last fiscal year for which we received an Incentive Allocation, as adjusted for capital activity. If Account A has a net loss with respect to any fiscal year, we will not receive an Incentive Allocation until the net asset value of Account A exceeds the high water mark. After that, the Incentive Allocation will return to the previously applicable percentage.

Account B pays a Management Fee of 0.25% of the net asset value of Account B on the first day of each calendar quarter. The Management Fee for Account B will be pro-rated to take into account contributions made on days other than on the first day of a calendar quarter.

Account B pays an Incentive Allocation equal to 10% of (a) the excess of the net increase in the net asset value of the Account during a calendar year (adjusted to eliminate the effect of any additions or withdrawals from the Account during the year, and, net of the Management Fee among other fees and expenses) over any loss in the Account in any prior calendar year that has not previously been recovered (the “10% Loss Carry forward” as adjusted to eliminate the effect of any additions or withdrawals from the Account during the year) and (b) an annual non-cumulative hurdle (“Hurdle”) equal to 5% of the net asset value of the Account as of the beginning of the calendar year (as adjusted on a proportionate basis to reflect any additions to or withdrawals from the Account during the year).

Account C pays a Management Fee in arrears in an amount (accrued monthly) equal to one-twelfth (1/12th) of 1.5% of the net asset value of Account C as of the last day of a calendar month (adjusted for contributions made on a day other than the first day of a calendar month).

Account C pays an Incentive Allocation equal to 15.0% of the aggregate net realized and unrealized changes in the value of Account C at the end of a fiscal year combined with all other income and expenses (including the Management Fee) of any kind for such period (collectively “Net Profits”), and subject to the “high watermark” provision discussed below. If withdrawals are made from Account C prior to the end of a fiscal year, an Incentive Allocation on the withdrawn amount will be calculated and will be payable in arrears within thirty days of such withdrawal.

The “high water mark” for Account C is defined as the net asset value of Account C as of the end of the last fiscal year for which we received an Incentive Allocation, as adjusted for capital activity. If Account C has a net loss with respect to any fiscal year, we will not receive an Incentive Allocation until the net asset value of Account C exceeds the high water mark.

The Funds

The General Partner of the U.S. Fund or the Board of Directors of the Offshore Fund, with the consent of P&S, may in its discretion waive or reduce the Management Fee or Performance Allocation with respect to the capital accounts or shares of certain investors, including affiliates of P&S or the General Partner.

B. Other Fees and Expenses

Certain expenses are borne by Clients directly. This includes all of the costs and expenses relating to investments and operations, including brokerage and other transaction costs, costs of leverage (see Item 8), clearing and settlement charges, insurance, interest and commitment fees, borrowing charges on securities sold short, legal fees, certain research expenses, professional fees, audit, and administrative expenses.

P&S bears (1) all overhead expenses incurred in the operation of its business, such as salaries and the costs of office space, utilities, telephone, computer equipment, and computer services and (2) any costs of subscriptions to proprietary databases and other research costs with the exception of those items listed under Item 12 below.

C. Prepayment of Fees.

The Funds

The Management Fee received from each Feeder Fund is payable quarterly in advance. With respect to certain investors whose initial subscriptions in the Funds equal or exceed \$125,000,000, the Management Fee is equal to 0.375% of each such investor's capital account or share value at the beginning of each calendar quarter (1.5% annualized). The Management Fee will be pro-rated to take into account initial or additional subscriptions made other than on the first day of a calendar quarter. The amount of the management fee is billed to each Feeder Fund and paid following the beginning of each quarter (or following such other dates when investments are made to the Feeder Funds). A pro rata portion of the quarterly management fees will not be refunded if an investor withdraws capital other than on the last day of a calendar quarter.

Separately Managed Accounts

As discussed in Item 5.A above, for example, Account B pays a Management Fee of 0.25% of the net asset value of Account B on the first day of each calendar quarter. The Management Fee for Account B will be pro-rated to take into account contributions made on days other than on the first day of a calendar quarter.

D. Other Conflicts of Interest.

We are indirectly affiliated with other investment advisers and broker-dealers in that Moelis Holdings have ownership interests in other registered entities subject to regulatory authority.

P&S does not conduct any transactions through any of the Moelis affiliated entities. We also do not buy or sell securities for our own proprietary account.

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

The General Partner receives a performance allocation from each of the capital accounts of the Feeder Funds. The Performance Allocation for each Feeder Fund is equal to 20.0% of the aggregate net realized and unrealized changes in the value of each underlying investor's capital account or shares at the end of a fiscal year net of all other income and expenses (including the Management Fee) of any kind for such period (collectively "Net Profits"), and subject to a "high watermark" provision as discussed below. The Performance Allocation is determined separately for each series of shares owned by an investor in the Offshore Fund. The Performance Allocation percentage with respect to certain investors whose initial subscriptions equal or exceed \$125,000,000 is equal to 15.0% and subject to a high watermark provision. If an investor makes a withdrawal or redemption prior to the end of a fiscal year, a Performance Allocation on such withdrawn amount will be taken at that time. Performance Allocations are deducted from investor's capital accounts or shares as of the last day of the fiscal year (or sooner for redemptions).

If an investor has net losses with respect to any year, the Performance Allocation shall be reduced by one-half (1/2) until such time as Net Profits allocated to such investor's capital account or series of shares equals 225% of the amount of such net losses (known as a "high watermark"). Thereafter, the Performance Allocation will return to the percentage previously applicable to such investor. The amount of net losses to be recovered will be proportionately reduced for any withdrawals or redemptions by an investor.

A Performance Allocation will not be charged on unrealized appreciation and depreciation relating to Designated Investments (as such term is defined below) until such Designated Investment is sold or the General Partner or Board of Directors, as applicable, determines that it should not be treated as a Designated Investment. A "Designated Investment" is an investment which the General Partner or Board of Directors determines are illiquid, restricted on sale, not susceptible to valuation prior to disposition or maturity, or should be held for an extended period.

A conflict of interest exists regarding performance based compensation because P&S and its investment personnel may have a greater incentive to favor Clients that pay higher performance-based compensation or higher overall fees than other Clients.

P&S has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of client accounts, including accounts with different fee structures. These policies include valuation of assets (which impact fees) and allocation of trades. Our policies generally require that Clients with similar investment strategies participate in investment opportunities pro rata based on net asset size and investment mandates (subject to certain exceptions including any restrictions imposed by the Client) and require that, to the extent orders are aggregated for more than one Client, each Client account receives the same average price.

Item 7. Types of Clients

P&S provides investment advisory services to private investment funds (both U.S. and offshore) and separately managed accounts. Clients include high net worth individuals, private funds, corporate pension and profit-sharing plans, foundations, endowments, and other U.S. and international institutions. Our Funds are exempt from registration under the Securities Act of 1933, or the Investment Company Act of 1940.

An initial minimum investment of \$5,000,000 is required in order to invest in the Funds, which may be waived. Although P&S has no stated minimum requirements for separately managed accounts, P&S will generally only advise a separately managed account for larger amounts of capital as P&S may determine from time to time.

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

P&S seeks to obtain above-average returns for Clients and preserve capital through long and short investments primarily in various credit instruments, including, without limitation, bonds, loans and credit default swaps. Clients may invest in some or all quality segments across the credit markets, including investment grade, high-yield, stressed and distressed credits, as well as unrated, private and emerging market instruments. Investments for Clients will also be considered in other securities, which may include bank loans, bridge loans, mezzanine securities, convertible securities, vendor financing and trade claims, structured products, index trading, and preferred and common stock. P&S generally combines this fundamental credit approach with a “macro” overlay. This approach may include opportunities outside the credit markets that P&S believes offer favorable risk/reward dynamics or are intended to manage broader market risks or neutralize certain portfolio biases.

We also offer a traditional convertible bond arbitrage strategy. This usually involves taking a long position in a fixed income security, usually unsecured debt of preferred equity that is convertible at a fixed rate into common equity of the same issuer. These securities are generally hedged using the common equity in an attempt to generate capital appreciation and high current income under various equity price scenarios while minimizing downside risk. Hedges can also include other fixed income instruments of the issuer as well as equity or credit derivatives.

Fundamental investment decisions for significant positions will generally be made pursuant to an analytical research process, coupled with a review of market technicals, to evaluate each situation. Investment decisions for significant “macro” investments will generally take into account both the risk/reward profile of particular investment opportunities and the analytical and fundamental factors identified with respect to such opportunities.

P&S anticipates that a significant portion of Client portfolios will be invested in securities of companies located in the United States and in Europe. P&S expects to use leverage to create a larger and broader portfolio of investments for Clients, and seeks to construct a diversified

portfolio of securities; both in terms of types of securities and sectors, but at times may choose to accept higher concentration levels when potential risk-adjusted return profiles warrant such risk.

B. Material Risks (Including Significant, or Unusual Risks) Relating to Investment Strategies

Investing in securities involves risk of loss that Clients should be prepared to bear, including the complete loss of principal. The following list of risk factors describes the material risks impacting our Clients. Unless otherwise noted, the risk factors listed below reference all Clients.

Portfolio Liquidity and Transfer Restrictions. As a result of our Clients' investment strategies, certain investments (especially those involving financially distressed companies or bank loans) may have to be held for a substantial period of time before they can be liquidated. Investments may include private securities which may be subject to substantial restrictions on transferability and for which there may be no readily available market. Certain illiquid and restricted investments may be segregated as Designated Investments and subject to further restriction, and may represent capital not available for withdrawal or redemption. Such investments may be difficult to value.

Investments in High Yield and Distressed Securities. High yield and distressed securities are generally not exchange traded and, as a result, these instruments trade in a smaller secondary market than exchange-traded bonds. P&S may invest Client assets in credit instruments of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities that are below investment grade or unrated face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments and economic conditions to a greater extent than do higher-rated securities. Companies that issue such securities are often highly leveraged and may not have more traditional methods of financing. It is possible that an economic recession could disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers to repay principal and pay interest thereon and increase the incidence of default. Such investments involve a substantial degree of risk and could result in substantial losses to Clients.

The terms and conditions associated with credit instruments, particularly high yield and distressed securities, are often complex and require a sophisticated level of evaluation of financial, operational and legal matters. There is no assurance that P&S will correctly evaluate the value of a company's assets, the terms of its debt instruments or the prospects for a successful reorganization or similar action. Investments in these securities require active monitoring and may, at times, require that P&S participate in business strategy or reorganization proceedings (which may be subject to certain conflicts of interest described in Item 10 below). Any involvement by P&S in an issuer's reorganization proceedings could result in the imposition of restrictions limiting Clients' ability to liquidate their respective positions in the issuer.

Fixed Income Securities. Fixed income securities (including bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities; and commercial paper) pay fixed, variable or floating rates of interest. The value of fixed income securities will change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities can fluctuate in response to perceptions of credit worthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk).

General Market and Risks of Credit Obligations. Credit portfolios are subject to credit risk and interest rate risk. "Credit risk" refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument, and debt obligations which are rated by rating agencies are often reviewed and may be subject to downgrade. "Interest rate risk" refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

Investments in Bankrupt or Restructured Companies. Some issuers of securities may be involved in bankruptcy or other reorganization proceedings which involve a substantial degree of risk. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. Accordingly, a bankruptcy court may approve actions that are contrary to the interests of P&S' Clients.

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

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

which may result in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

P&S may purchase creditor claims subsequent to the beginning of a bankruptcy case. Under judicial decisions, it is possible that those purchases may be disallowed by the bankruptcy court if the court determines that the buyer has taken unfair advantage of an unsophisticated seller, which may result in the termination of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

Foreign Securities. P&S intends to make investments for its Clients in securities of non-U.S. issuers, including issuers located in emerging markets. These investments involve substantial risks not typically associated with investing in U.S. securities. Foreign securities investments may be affected by changes in currency rates or exchange control regulations, changes in governmental administration or economic or monetary policy (in the United States and abroad) or changed circumstances in dealings between nations. Changes in foreign currency exchange rates relative to the U.S. dollar will affect the U.S. dollar value of assets denominated in that currency and thereby impact a Client's total return on such assets. There can be no assurance that hedging transactions will be effective.

Investments in foreign securities, particularly emerging markets, may also have risks relating to political and economic developments abroad, including the possibility of expropriations or confiscatory taxation, limitations on the use or transfer of assets owned by Clients and any effects of foreign social, economic or political instability. Foreign companies are not subject to the same regulatory requirements of U.S. companies and, therefore, may be less publicly available information about such companies. Foreign companies are not subject to uniform accounting, auditing and financial reporting standards and requirements comparable to those applicable to U.S. companies. Finally, in the event of a default of any foreign debt obligations, it may be more difficult for Clients to obtain or enforce a judgment against the issuers of those securities.

Securities of foreign issuers may be less liquid than comparable securities of U.S. issuers and, as such, their price changes may be more volatile. Foreign exchanges and broker-dealers are generally subject to less government and exchange scrutiny and regulation than their American counterparts. Brokerage commissions, dealer concessions and other transaction costs may be higher on foreign markets than in the U.S. Additionally, differences in clearance and settlement procedures on foreign markets may cause delays in settlements of trades executed in such markets.

Repatriation of investment income, capital and the proceeds of sales by foreign investors may require governmental registration and/or approval. Delays in or a refusal to grant any required governmental registration or approval for such repatriation or withholding taxes imposed by the government of an emerging country may adversely impact Clients.

Taxation of dividends, interest and capital gains received by non-residents varies among countries and, in some cases, is comparatively high. In addition, some countries have tax laws and procedures that may permit retroactive taxation so that Clients could in the future become subject to local tax liability that were not reasonably anticipated in conducting investment activities or valuing assets.

The legal systems in emerging markets are often not as sophisticated as those in the U.S. and other developed countries and may be difficult to predict with any degree of assurance. The issuers of sovereign debt securities, particularly in emerging markets, have in the past experienced substantial difficulties in servicing their external debt obligations, which have led to defaults on certain obligations and the restructuring of certain indebtedness.

Contingent Liabilities. Investment activities may result in contingent liabilities from time to time. Clients may be deemed to enter into agreements pursuant to which they agree to assume responsibility for default risk presented by a third party. Clients may, on the other hand, enter into agreements through which third parties offer default protection to them.

Use of Leverage. Leverage may be used through margin and other debt to increase the amount of capital available for investments as well as through options, short sales, swaps, forwards and other derivative instruments. For the Funds, there are no restrictions on the amount of leverage that may be used and the amount of leverage may be significant from time to time. The use of leverage decreases returns and can increase losses where a Client fails to earn as much on investments made with borrowed funds as it pays to borrow them. The cumulative effect of the use of leverage in a market that moves adversely to a Client(s)' investments could result in substantial losses, including the risk of a total loss of capital, which would be greater than if the Client investment had not been leveraged. Interest and borrowing rates generally are expenses borne by Clients and will therefore affect Client operating results; there is no guarantee that P&S can obtain sufficient leverage on behalf of its Clients to obtain desired results.

The use of short-term margin borrowings results in certain additional risks to Clients. For example, should the securities pledged to brokers to secure Clients' margin accounts decline in value, Clients could be subject to a "margin call," pursuant to which Clients must either deposit additional funds or securities with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of Client assets, Clients might not be able to liquidate assets quickly enough to satisfy margin requirements.

To the extent that a prime broker, counterparty or other credit provider elects immediately to amend margin and pricing terms, terminate an ISDA or declare a default under a credit agreement, such action may limit the amount of available leverage, or affect the cost of leverage. The counterparty may close out positions under the relevant agreement at prices determined by the counterparty and setoff other amounts owed by the counterparty which will likely result in substantial losses to the Client holding such positions. A termination of an ISDA or a declaration of default under a credit agreement by a counterparty may also permit other counterparties to exercise similar rights against the Client under the cross-acceleration provisions of other financing agreements. It is expected that a broad-based increase in margin among hedge funds generally is likely to have an adverse impact on the market values of the investments held by the

Funds because a reduction in available leverage for hedge funds will decrease demand and increase supply of the relevant investments.

Short Sales. A portion of the investment program for Clients may include short selling. Short sales are sales of securities a Client borrows but does not actually own, usually made with the anticipation that the prices of the securities will decrease and Clients will be able to make a profit by purchasing the securities at a later date at the lower prices. Clients will incur a loss on a short sale if the price of the security increases prior to the time it purchases the security to replace the borrowed security. A short sale presents greater risk than purchasing a security outright since there is no ceiling on the possible cost of replacing the borrowed security, whereas the risk of loss on a “long” position is limited to the purchase price of the security. Closing out a short position may cause the security to rise further in value creating a greater loss.

Short sale transactions have been subject to increased regulatory scrutiny in response to recent market events, including the imposition of restrictions on short selling certain securities and new reporting requirements. P&S’ ability to execute a short selling strategy may be adversely impacted by temporary and/or new permanent rules, interpretations, prohibitions, and restrictions adopted in response to these adverse market events, and such changes may be adopted with little or no advance notice.

Such regulations or prohibitions may impose restrictions that adversely affect the ability to borrow certain securities in connection with short sale transactions. In addition, traditional lenders of securities might be less likely to lend securities under certain market conditions. As a result, P&S may not be able to effectively pursue a short selling strategy on behalf of its Clients due to a limited supply of securities available for borrowing. Moreover, the ability to continue to borrow a security is not guaranteed. Certain action or inaction by third parties, such as executing broker-dealers or clearing broker-dealers, may materially impact the ability to effect short sale transactions.

Portfolio Turnover. A Client may hold certain investments for a short period prior to rolling them into new investments or selling them. This will cause the recognition of any investment gains on a more frequent basis than other investment strategies. This may result in unfavorable tax consequences to Clients, particularly Clients which are taxed in the U.S. In addition, frequent trading may also result in higher total commission charges and transaction costs for Clients.

Economic and Regulatory Climate. General economic and market conditions will affect the success of investments P&S makes for Clients, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), 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 securities’ prices, the liquidity of investments and the availability of certain securities and leverage. Volatility or illiquidity could impair profitability or result in losses. Clients may maintain substantial 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.

Concentration of Investments. P&S will generally seek to maintain a diversified portfolio, but is not limited in the amount of capital which it may commit to any one investment, type of security, sector or geographic location. Accordingly, although P&S expects to spread capital among a number of investments, it may depart from such policy from time to time. Clients may hold a few, relatively large positions. The result of such concentration of investments is that a loss in any such position could have a material adverse impact on a Client's capital.

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 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 is relatively illiquid, particularly for relatively small transactions.

Other Derivative Investments. Derivative instruments, or "derivatives," include futures, options, 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, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index 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 not only result in the loss of the entire investment, but may also expose Clients 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.

P&S expects to invest Client assets in credit default swaps (see below) and may also invest in interest rate, currency and other swaps. In a typical interest rate swap, one party agrees to make regular payments equal to a floating interest rate times a "notional principal amount," in return for payments equal to a fixed rate times the same amount, for a specified period of time. In a currency swap, the parties generally enter into an agreement to pay interest streams in one currency based on a specified rate in exchange for receiving interest streams denominated in another currency. Currency swaps may involve initial, periodic and final exchanges of the currency that correspond to the agreed upon notional amount. Changes in interest rates and in foreign exchange rates may negatively affect interest rate and currency swaps.

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

Credit default swaps can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. Credit default swaps can be used to implement P&S' view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, P&S may sell credit default protection and receive a premium to take on the risk. In such an instance, the obligation to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. P&S may also "purchase" credit default protection even in the case in which we do not own the referenced instrument and we believe there is a high likelihood of credit deterioration.

The credit default swap market in high yield securities is relatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities. Swap transactions dependent upon credit events are priced incorporating many variables, including, for example, the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury Yield curve, among other factors. As such, there are many factors upon which market participants may have divergent views. P&S may also enter into credit default swap transactions even if the credit outlook is positive, if we believe that participants in the marketplace have incorrectly valued the components which determine the value of a swap.

Convertible Securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that are convertible into a fixed number of shares of equity, usually of the same issuer, within a particular period of time. These securities have embedded call options and the issuer may exercise these call options prior to maturity of the instrument, or at a price lower than the purchase price. Additionally, an issuer may increase its equity dividend without a corresponding rise in associated convertible instruments' current yield, potentially reducing or eliminating the value of the convertible as opposed to equity ownership. Convertible securities are exposed to changes in the ownership or management of the issuer which may change the conversion terms and options of the instruments, in addition to general market, currency, and default risks. Many issuers of convertible securities are in uncertain financial condition and the convertible securities may not be investment-grade and will involve correspondingly increased risk of default.

Forward Trading. Forward trading involves contracting for the purchase or sale of a specific quantity of, among other things, a financial instrument at the current price thereof, with delivery and settlement at a specified future date. The principal risks relating to the use of forwards are:

(a) when used for hedging purposes, the possible imperfect correlation between the prices of the forwards and the market value of the securities or currencies in a portfolio intended to be hedged by the forwards; (b) possible lack of a liquid secondary market for closing out a forwards position; (c) losses on forwards resulting from interest rate or currency movements not anticipated by P&S; and (d) the risk of counterparty defaults.

Counterparty Risk. Some of the markets in which we effect transactions are “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of “exchange-based” markets are subject. This exposes Clients 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 Clients to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a portfolio has concentrated 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 with limited if any rights for creditors. The absence of a regulated market to facilitate settlement may increase the potential for losses by Clients. Separately managed accounts are responsible for negotiating their own agreements with counterparties. Their ability to transact with certain counterparties may be delayed or prohibited by this responsibility.

Bank Loans. As a result of the additional debt incurred by the borrower in the course of a bank loan, the borrower’s creditworthiness is often judged by the ratings agencies to be below investment grade. The bank loans we acquire are likely to be below investment-grade and may not be rated.

Mezzanine Investments. Mezzanine investments are usually privately negotiated subordinated debt and equity securities issued in connection with leveraged transactions, such as management buyouts, acquisitions, refinancing, recapitalizations, later stage growth financings, and are generally rated below investment-grade or not-rated. Mezzanine investments may also include investments with equity participation features such as warrants, convertible securities, senior equity investments and common stock. Mezzanine investments are subject to the same risks associated with high-yield securities. Additional risks include the relative illiquidity of the investment, due to the relatively small number of holders of any particular mezzanine investment.

Additional information on material market risks for the Funds is disclosed in the COM.

Item 9. Disciplinary Information

There are no legal or disciplinary events to report that would be material to a Client or prospective Client’s evaluation of P&S’ advisory business.

Item 10. Other Financial Industry Activities and Affiliations

Moelis Capital Partners LLC, a wholly owned subsidiary of Moelis Holdings ("Moelis Advisory"), is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act") and currently conducts a bankruptcy (private equity) financial advisory business (including advice to debtors and creditors) primarily through its Restructuring & Recapitalization Group. Moelis & Company LLC, a wholly owned subsidiary of Moelis Holdings, is a registered broker-dealer with the SEC. P&S is under the common control of Moelis Holdings with each of these entities.

P&S Credit Partners, LLC, Moelis Holdings, and Moelis & Company Holdings GP LLC are considered "relying advisers" on P&S' SEC registration under Section 203(a) and Section 208(d) of the Advisers Act.

P&S Credit Partners, LLC serves as the General Partner of the U.S. Fund and the Master Fund. Daniel Nir, a former employee and an original founder of P&S, also serves as a non-compensated director of the Offshore Fund.

P&S, the General Partner and the respective employees and agents thereof will devote such time and effort to the Clients and their affairs as they deem necessary and appropriate. P&S, the General Partner and the employees and agents thereof may engage in other activities, including providing investment management and advisory services to other entities.

We have procedures in place which seek to mitigate actual and potential conflicts of interest between P&S, its employees, and the Moelis Holdings affiliates. For example, it is our policy not to conduct any brokerage business through any affiliated broker-dealers. Information barriers have been put in place to prevent the dissemination of material non-public information between P&S and its affiliates.

P&S is also a commodity pool operator (CPO) exempt from registration. However, direct commodity investment is not a primary activity for us.

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

P&S has adopted a Code of Ethics for all employees of the firm. The Code of Ethics includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, a prohibition on rumor mongering, restrictions on the acceptance or giving of gifts with a material value, and pre-clearance of employee's personal securities trading, among other things. All employees at P&S must acknowledge the terms of the Code of Ethics annually, or as amended.

A complete copy of the P&S Code of Ethics will be provided to any Client or prospective Client upon request to our Chief Compliance Officer at our main address.

B. Client Transactions in Securities where Adviser has a Material Financial Interest

P&S anticipates that, in certain circumstances, consistent with Clients' investment objectives, it will purchase or sell securities for Clients in which P&S or its affiliates, directly or indirectly, have a position of interest. P&S' employees are required to follow the P&S' Code of Ethics which includes provisions addressing potential conflicts of interest. Subject to satisfying this policy and applicable laws, officers, directors and employees of P&S and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased or sold for Clients.

It is P&S' policy that the firm will not affect any principal or agency cross securities transactions for Client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser has an affiliated broker-dealer. It is our policy not to conduct transactions through any Moelis affiliated broker-dealer.

C. Investing in Securities Recommended to Clients

The Code of Ethics is designed to ensure that our employees conduct their personal securities transactions in such a manner as to avoid putting their own personal interests ahead of our Clients and to avoid conflicts of interest. The Code requires pre-clearance of the majority of personal securities transactions by employees prior to execution of such transactions. Permitting employees to invest in the same securities as the Clients creates a conflict of interest, including that employees might benefit from market activity by a Client. Trading by employees is regularly monitored under the Code of Ethics.

Item 12. Brokerage Practices

A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.

P&S is responsible for selecting broker-dealers to execute trades and the negotiation of any commissions paid on such transactions. P&S' primary consideration in placing transactions with particular broker-dealers is to obtain best execution. P&S also takes into account a variety of other factors, which may include, but shall not be limited to:

- Price quotes;
- Size of the transaction;
- Nature of the market for the security;
- Timing of the transaction; difficulty of execution;

- Broker-dealer's expertise in the specific security or sector in which P&S seeks to trade;
- Research products or services provided;
- Extent to which the broker-dealer makes a market in the security involved or has access to such markets;
- Availability of accurate information regarding the market for the security;
- Broker-dealer's skill in positioning the securities involved; the broker-dealer's promptness of execution;
- Broker-dealer's financial stability;
- Adequacy of the broker-dealer's trading infrastructure, technology and capital;
- Broker-dealer's reputation for diligence, fairness and integrity;
- Quality of service rendered by the broker-dealer in other transactions for P&S;
- Confidentiality considerations;
- Availability of stocks to borrow for short trades; and,
- Broker-dealer's ability to accommodate any special execution or order handling requirements that may surround the particular transaction.

1. Research and Other Soft Dollar Benefits.

P&S may also consider the quality, comprehensiveness and frequency of available research and other products and services considered to be of value. P&S 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 with such research and other products and services or to pay higher commissions to such firms if P&S determines such prices or commissions are reasonable in relation to the overall services provided. Accordingly, Clients advised by P&S may be deemed to be paying for research and other products and services with "soft" dollars. This practice may create certain conflicts of interest. Products and services paid for with commission dollars generated by trades for one Client may also be utilized by P&S in connection with its investment services for other Clients. When P&S uses Client brokerage commissions (or markups or markdowns) to obtain research or other products or services, P&S receives a benefit because it does not have to produce or pay for the research, products or services. P&S has an incentive to select or recommend a broker-dealer based on its interest in receiving the research products or services rather than the interest of its Clients in receiving most favorable execution.

P&S may use "soft" dollars to pay for products and services offered by a broker-dealer executing trades for Clients that fall within the Section 28(e) safe harbor, as interpreted by the SEC. During 2011, P&S used "soft" dollars to pay for both fundamental and quantitative research and analysis, including analysis of news and public filings for selected issuers, market and sector news and analysis and fundamental and technical research reports and expects to continue to use soft dollars for such purposes in 2012.

2. Brokerage for Client Referrals

P&S does not and has not received any direct client referrals from any broker-dealers in exchange for brokerage business. P&S has a relationship with a broker-dealer that acts as a placement agent to the Funds. See Item 14 below.

3. **Directed Brokerage.**

P&S does not routinely recommend, request, or require the execution of transactions through a specified broker-dealer. Additionally, P&S does not have any directed brokerage arrangements and does not currently permit directed brokerage arrangements.

B. Order Aggregation

P&S may give advice to any Client which may be the same as or different from the advice given or the timing or nature of any action taken with respect to investments of another Client. Allocation of investment opportunities among various Clients will be made in the judgment of P&S based upon the investment objectives of the Clients. When the purchase or sale of securities is considered to be in the best interest of more than one Client at the same time, the securities to be purchased or sold may be aggregated in order to seek best execution and/or lower brokerage expenses. Execution prices for identical securities purchased or sold on behalf of multiple Clients in any one business day may be averaged. In such events, allocations shall be made in a manner considered to be equally as favorable to all Clients participating in the order.

Item 13. Review of Accounts

A. Frequency and Nature of Review

P&S' portfolio managers review Client accounts regularly, and in-depth on a weekly basis. Regular risk reports are reviewed by the portfolio managers and Head of Credit Trading to determine, among other things, whether account positions should be maintained or adjusted in light of position-specific information, current market conditions and/or internal risk guidelines.

Portfolio measures reviewed include:

- Exposure metrics
- Asset breakdown
- Position details such as price, spread, maturity, yield
- Position-level profits and losses,
- Geographical, industry and issuer concentrations
- Specific news or research relating to an issuer or sovereign
- Overall portfolio liquidity

The portfolio managers monitor this data within the context of market conditions and internal portfolio composition analysis and guidelines.

B. Content and Frequency of Regular Account Reports

The investors in each Fund receive month-end estimates of performance from us and we distribute quarterly investment letters to investors in the Funds, which typically include a general discussion on current portfolio positioning. We also provide Fund investors a monthly report on

the Funds' exposures and asset allocations. The capital value of each investor's investment in a Fund is independently calculated and reported by the Fund's Administrator, Citco Fund Services, and distributed to underlying investors by the third party administrator. Investors in each Fund also receive audited financial statements following the end of each fiscal year. Certain investors may, by request, receive additional reporting information, including weekly estimates of performance.

Some Clients receive trade reporting and reconciliations on a daily basis and full details in regard to cash balances, transaction activity, and net asset value support on a monthly basis.

Reports are generally produced and delivered to Clients under our d/b/a name, Gracie.

Item 14. Client Referrals and Other Compensation

P&S has an arrangement with J.P. Morgan Securities, Inc., a registered broker-dealer, (the "Placement Agent") where the Placement Agent acts with respect to the offer and sale of the Funds. The Placement Agent receives a fee for its services which is a percentage of the Management Fee and Performance Allocation.

Item 15. Custody

To satisfy the SEC's custody rule requirements, the Funds provide each investor in the Fund with audited financial statements within 120 days of the end of each fiscal year. P&S does not have custody of Client assets.

Item 16. Investment Discretion

P&S has discretionary authority over Client portfolios. Discretionary authority for the Funds is granted by the General Partner to the Funds in accordance with the Confidential Offering Memorandum. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives and strategies for our Clients.

Separate account clients have the ability to place restrictions on their portfolios under the Investment Management Agreement with P&S.

Item 17. Voting Client Securities

P&S votes proxies in accordance with the proxy voting guidelines adopted by P&S which are reasonably designed to ensure that proxies are voted in the best interests of Clients and to recognize and resolve any material conflicts of interest that may arise in the course of such voting.

Proxies are generally voted in accordance with the recommendation of the issuer's management. Non-routine matters are decided on a case by case basis, although generally voted in support of management. If a proxy raises material conflicts between P&S or its employees and one of its Clients, the proxy will be voted in a manner determined to be in the best interest of P&S' Clients.

Clients may obtain a copy of P&S' proxy voting policies and procedures as well as a record of proxies voted on their behalf by contacting our Chief Compliance Officer at our main business address.

Item 18. Financial Information

P&S has no financial condition that is reasonably likely to impair its ability to meet contractual commitments to Clients and has not been the subject of a bankruptcy proceeding.

Item 19. Requirements for State-Registered Advisers

This Item is not applicable since we are an SEC registered adviser.