

Benefit Street Partners L.L.C.

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Part 2A of Form ADV: Firm Brochure
May 29, 2014

This brochure provides information about the qualifications and business practices of Benefit Street Partners L.L.C. If you have any questions about the contents of this brochure, please contact us at 212-588-6700. 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.

Additional information about Benefit Street Partners L.L.C. also is available on the SEC’s website at www.adviserinfo.sec.gov. An investment adviser’s registration with the SEC does not imply a certain level of skill or training.

Item 2. Material Changes

This brochure dated May 29, 2014 serves as an update to the Adviser's brochure dated March 31, 2014 (the "Prior Brochure"). This brochure contains other-than-annual updates to the Prior Brochure, which include, but are not limited to, certain updates which may be material as follows:

1. Updating the brochure in Items 4, 5, 11 and 16 to describe the Adviser's additional sub-advisory clients and the fees and compensation received by the Adviser and its affiliates with respect to such clients, and making related changes regarding the Adviser's code of ethics and brokerage practices.

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Item 4. Advisory Business

For purposes of this brochure, “Adviser” means Benefit Street Partners L.L.C. (“Benefit Street”), a Delaware limited liability company, together (where the context permits) with certain of its affiliates that provide advisory services to and/or receive advisory fees from the Funds (as defined below). These affiliates may or may not be under common control with Benefit Street, but possess substantially similar personnel and/or equity owners with Benefit Street. These affiliates may be formed for tax, regulatory or other purposes in connection with the organization of the Funds, or may serve as general partners of the Funds.

Background

Benefit Street is an investment management team that focuses on debt-related investments across various market sectors. Certain principals of Providence Equity Capital Markets L.L.C., an affiliate of Benefit Street that pursues value-based investments in debt instruments in companies doing business in the media, entertainment, communications, education and information services industries, created Benefit Street in 2011.

The principal owners of Benefit Street are (i) Jonathan M. Nelson, through Providence Equity L.L.C. and (ii) Thomas Gahan, through BSP Holdco, LLC.

Benefit Street is a registered commodity pool operator (“CPO”) with the Commodity Futures Trading Commission (“CFTC”) and a member of the National Futures Association (“NFA”) with respect to certain clients for which it serves as commodity pool operator.

Services

The Adviser provides investment advisory services to investment vehicles and to separate account clients. The Adviser currently serves as the investment manager for Benefit Street Credit Alpha Master Fund Ltd. (the “Credit Alpha Master Fund”), Benefit Street Credit Alpha Partners LP and Benefit Street Credit Alpha Fund Ltd., feeder funds that invest in the Credit Alpha Master Fund (collectively, the “Credit Alpha Feeder Funds” and, together with the Credit Alpha Master Fund, the “Credit Alpha Funds”), Benefit Street Partners CLO I, Ltd., Benefit Street Partners CLO II, Ltd. and Benefit Street Partners CLO III, Ltd. collateralized loan obligation funds (the “CLO Funds”), Providence Debt Fund III, L.P., Providence Debt Fund III (Non-U.S.) L.P., and Providence Debt Fund III Master (Non-U.S.) L.P. (collectively, “Fund III”), Benefit Street Partners RE FR K-31 L.P. and other single investor, tailored funds and certain separate accounts. The Adviser currently serves as sub-adviser for the SEI High Yield Fixed Income Fund, a sub-fund of SEI Global Master Fund plc, and the U.S. High Yield Bond Fund, a Canadian fund managed by SEI Investments Canada Company (the “SEI Funds”). The Adviser also currently serves as sub-adviser to registered investment companies, including the High Yield Bond Fund, a series of SEI Institutional Investments Trust, the High Yield Bond Fund, a series of SEI Institutional Managed Trust (together, the “Sub-Advised Funds”). The Adviser may also manage other registered investment companies and business development companies (either as adviser or as sub-adviser to other unaffiliated investment managers) (together with the Sub-Advised Funds, the “1940 Act Funds” and, together with the other funds, vehicles and account arrangements discussed in this paragraph, the “Funds”).

Certain of the Funds primarily make investments in debt instruments across various market sectors. The Funds also may from time to time invest in equity securities, certain types of instruments which may be considered to have equity characteristics (such as preferred stock and convertible instruments), and derivative instruments. Certain of the Funds focus on primarily making investments in interests of real estate mortgage trusts and other real estate related debt instruments. The Adviser's advisory services consist of investigating, identifying and evaluating investment opportunities, structuring, negotiating and making investments on behalf of the Funds, managing and monitoring the performance of such investments and disposing of such investments. The Adviser may serve as the investment adviser, sub-adviser or general partner to the Funds in order to provide such services.

Except as may be the case for certain separately managed accounts, investment advice is generally provided directly to the Funds and not individually to investors in the Funds. Services are provided to the Funds in accordance with an advisory agreement with the Funds, sub-advisory agreements with a Fund's investment adviser, and/or organizational documents of the applicable Fund. Investment restrictions for the Funds, if any, are generally set forth in the organizational documents and/or prospectus and statement of additional information ("SAI") of the applicable Fund.

As of December 31, 2013, the Adviser manages \$4,118,412,995 of client assets, all of which is managed on a discretionary basis.

Item 5. Fees and Compensation

Management Fees

In respect of the Credit Alpha Master Fund, the Adviser is paid a quarterly management fee, payable in advance.

In respect of the CLO Funds, the Adviser is entitled to receive a senior management fee and a subordinated management fee. The senior management fee and the subordinated management fee accrue quarterly in arrears and are not paid in advance.

In respect of Fund III, the Adviser is entitled to receive a management fee that is paid quarterly in arrears.

In respect of the Sub-Advised Funds, the Adviser receives sub-advisory fees payable by the relevant Sub-Advised Fund's investment adviser pursuant to a sub-advisory agreement between the Adviser and each such investment adviser. Such fees are paid monthly in arrears.

In respect of certain of the single investor/tailored funds and other 1940 Act Funds, if any, the Adviser is entitled in certain cases to receive a management fee, typically payable quarterly or monthly in arrears, as set forth in the investment management agreement and/or organizational documents of the fund and/or a fee based upon certain milestones as negotiated with the client and/or investors. In the case of a 1940 Act Fund, the primary investment manager may pay the fee to the Adviser.

Consistent with the organizational documents or advisory agreements for each of the Funds, management fees paid by the Funds are either deducted from capital accounts or billed and, in either case, may be indirectly borne by investors in the Funds, including any feeder Funds that invest in such Funds. The Adviser does not receive a separate management fee directly from such feeder funds if the fee is borne directly by the master fund. The advisory agreements with the Funds are generally terminable by the Funds, subject, in some cases, to an applicable notice period or the occurrence of certain conditions or events. Sub-advisory agreements may be terminable by the primary investment adviser, the Adviser and/or the Fund. Upon termination of a relevant advisory agreement, management fees that have been prepaid are returned on a prorated basis.

The precise amount of, and the manner and calculation of, the management fees for each Fund, if any, is disclosed in the organizational and offering documents of such Fund at the time each investor invests in the Fund, or in the relevant advisory or sub-advisory agreements. Except with respect to the Sub-Advised Funds, the management fees are generally subject to waiver or reduction by the Adviser. For example, the Adviser, its affiliates, certain of its principals and employees, and their family members and related vehicles may invest in certain of the Funds, and management fees assessed on such investments may be substantially reduced or waived entirely. In addition, all or a portion of such persons' capital subscription may be made through reductions in or waiver of the management fee payable to the Adviser by such Fund in lieu of capital contributions. Certain large or strategic investors may also be eligible for a reduction or waiver of their fees.

Other Fees and Expenses

With respect to the non-1940 Act Funds, generally, and except as otherwise set forth in the organizational documents of a Fund, the Adviser will ultimately bear all fees and out-of-pocket expenses of any placement agent that solicits investors for the Funds. Such Funds will bear all legal and other expenses, including the out-of-pocket expenses of any applicable general partner, incurred in the formation of the Funds up to an amount, if any, specified in the organizational documents of the applicable Fund. Organizational expenses in excess of this amount ultimately will be borne by the Adviser.

Generally, and except as set forth in the organizational documents and/or advisory or sub-advisory agreements of the applicable Fund, a Fund (other than certain separate account clients, single-investor funds, tailored funds or 1940 Act Funds) will pay: (i) legal, accounting, custodial and third-party consulting fees for services rendered to or for the benefit of the Fund; (ii) third party out-of-pocket expenses incurred directly in connection with Fund investments or proposed investments, whether or not consummated, which are not paid or reimbursed by a third party; and (iii) other operating and extraordinary expenses of the Fund, including but not limited to investment expenses such as commissions, research fees and expenses (including research related travel, which may be first class), interest on margin accounts and other indebtedness, borrowing charges on securities sold short, custodial fees, bank service fees, and any other expenses related to the purchase, sale or transmittal of Fund assets (whether or not the transaction is consummated). Except as provided above and in the organizational documents of a Fund, the Adviser will typically pay ordinary operating expenses on account of rent and salaries for its personnel, and other routine administrative expenses relating to the services and

facilities provided by the Adviser to the Funds. Subject to the organizational documents and/or advisory agreements of a Fund, and to the extent not reimbursed by a third party, the Adviser may also pay for certain ordinary operating expenses incurred in investigating investment opportunities and monitoring Fund investments. Consistent with the organizational documents or advisory and/or subadvisory agreements for the applicable Funds, separate account clients, single-investor funds, tailored funds and 1940 Act Funds generally bear similar expenses and, in the case of the 1940 Act Funds, will also bear, among other expenses, transfer agency and distribution related expenses.

The Adviser may utilize the services of broker-dealers in connection with investments made by a Fund, and any brokerage or other transaction costs are borne by such Fund. For additional information regarding brokerage practices, please see Item 12 below.

In addition, please see Item 6 below for information regarding certain Incentive Allocations (as defined below) received by affiliates of the Adviser.

Related Service Fees and Related Other Fees

For certain of the Funds, the Adviser or its affiliates may receive fees in addition to the Management Fee, including placement agent fees, commitment fees, break-up fees, directors' fees, consulting fees, and similar fees relating to the investments made by a Fund and/or to management, advisory, transaction-related, financial advisory and other services ("Related Services") provided by the Adviser or its affiliates to an actual or prospective portfolio company, other investment vehicles of the Funds or the Funds themselves ("Other Fees"). Such Other Fees will generally be net of any expenses reasonably incurred by the Adviser or its affiliates in connection with such fees. Although these fees may be substantial and are in addition to management fees paid by the Funds, the Adviser may, in certain circumstances, reduce management fees in connection with the receipt of these Other Fees. The amount and manner of such reduction is set forth in the advisory agreement and/or organizational documents of the applicable Fund.

The Adviser and its affiliates also engage and retain senior advisors, advisers, consultants, and other similar professionals who are not employees or affiliates of the Adviser and who may, from time to time, receive payments from, or allocations with respect to, portfolio companies and/or other entities. In such circumstances, such amounts will not be deemed paid to or received by the Adviser and its affiliates and such amounts will not be subject to the sharing arrangements described above. For a discussion of material conflicts of interest created by the receipt of such fees, please see Item 11 below.

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

Certain of the Funds pay incentive or performance based allocations or fees or carried interest to the Adviser or certain affiliates of the Adviser (each, an "Incentive Allocation"). The Incentive Allocation paid by a Fund is indirectly borne by investors in the Fund, including any feeder Funds that invest in such Fund. The Incentive Allocations received by such related persons of the Adviser conform with the requirements set forth in Section 205 of the Investment Advisers Act of 1940, as amended (the "Advisers Act").

In respect of the Credit Alpha Master Fund, certain affiliates of the Adviser are generally entitled to receive at the end of each fiscal year and upon withdrawal a portion of net profits allocated to the Fund's capital accounts, subject to a loss carry forward as set forth in the organizational documents of the Fund.

In respect of the CLO Funds, the Adviser is entitled to receive an incentive management fee out of proceeds received by the CLO Funds from their collateral obligations, payable quarterly in accordance with the priority of payments as disclosed in the organizational documents of the CLO Funds. The payment of the incentive management fee is dependent to some degree on the yield earned on the CLO Funds' collateral obligations.

In respect of Fund III, certain affiliates of the Adviser are generally entitled to carried interest equal to a percentage of the proceeds of the Fund above certain thresholds upon the distribution of proceeds to investors.

Certain of the single investor/tailored funds or 1940 Act Funds may pay an Incentive Allocation as negotiated with the client/investor.

The precise amount of, and the manner and calculation of, the Incentive Allocation for each Fund, if any, is disclosed in the organizational and offering documents of each Fund at the time each investor invests. The Incentive Allocation provisions are subject to waiver or reduction by the general partner or Adviser, as applicable. For example, the Adviser, its affiliates, certain of its principals and employees, and their family members and related vehicles may invest in the Funds, and the Incentive Allocation assessed on such investments may be substantially reduced or waived entirely. In addition, all or a portion of such persons' capital subscription may be made through reductions in or waiver of the Incentive Allocation payable to the general partner by such Fund in lieu of capital contributions. Certain large or strategic investors may also be eligible for a reduction or waiver of their Incentive Allocation.

The payment by some, but not all, Funds of the Incentive Allocation, and the payment of the Incentive Allocation at varying rates by Funds that pay an Incentive Allocation, may create an incentive for the Adviser to disproportionately allocate time, services or functions to Funds paying the Incentive Allocation or Funds paying the Incentive Allocation at a higher rate. Generally, this conflict is mitigated for the Funds by the Adviser's allocation procedures. Subject to applicable investment objectives and guidelines, as discussed in more detail in Item 11 "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading," the Adviser and its affiliates generally allocate investment opportunities on a pro-rata basis among eligible Funds and clients based upon the current available capital of such investment vehicle.

The payment by the CLO Funds of the incentive management fee may create an incentive for the Adviser to seek to maximize the yield on the collateral obligations relative to investments of higher creditworthiness. Managing the CLO Funds with the objective of increasing yield, even though the Adviser is constrained by certain investment restrictions described in the CLO Funds' organizational documents, could result in an increase in defaults or volatility and could contribute to a decline in the aggregate market value of the CLO Funds' collateral obligations.

Please see Item 11 below for information regarding the allocation of investment opportunities and how conflicts of interest are generally addressed by the Adviser. Please also see Item 12 below regarding trade aggregation.

Item 7. Types of Clients

The Adviser provides investment advisory services to the Funds, including the Sub-Advised Funds. Investment advice is provided directly to the Funds and not individually to the investors in the Funds. Investors in the Funds may include, among others, individuals, banks, thrift institutions, pension and profit sharing plans, trusts, estates, charitable organizations, university endowments, corporations, sovereign wealth funds, limited partnerships and limited liability companies.

The Funds do not have a minimum size, but minimum investment commitments may be established for investors in the Funds. The general partner or board of directors of each Fund generally may, in their sole discretion, permit investments below the minimum amounts set forth in the offering documents of such Fund.

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

Methods of Analysis and Investment Strategies

Comprehensive joint industry and sector reviews, primarily focusing on debt opportunities, are completed on an ongoing basis in order to identify potential investment candidates. Moreover, the Adviser's extensive network and relationships with Wall Street and industry professionals are invaluable for sourcing potential opportunities. Generally, once a potential investment is identified, financial modeling is introduced in the early stages of the investment process and a forward-looking financial model with full projections is built. The projections typically incorporate the Adviser's macro views, sector analysis and individual company fundamentals. These projections are a key driver for all subsequent steps in the Adviser's investment process. Historical financials are also reviewed, with a focus on analyzing the company's operating performance and ability to generate free cash flow.

As part of the investment process, the Adviser employs multiple valuation methodologies to generate proprietary valuations and typically receives information directly from the entity (or its agents and/or representatives) it is investigating as a potential investment opportunity for a Fund.

Every position is evaluated with respect to its expected return and the probability of loss and trading liquidity. Typically, each Fund's portfolio is continually rebalanced in order to maintain proper risk weighting. The Adviser also assesses the transaction exits for a particular investment under multiple scenarios and timelines. As various scenarios unfold, the Adviser monitors the relationship between executable exit value (where one exists) and a proprietary assessment of intrinsic value, derived as part of the Adviser's investment process.

The Adviser's advisory services consist of investigating, identifying and evaluating investment opportunities, structuring, negotiating and making investments on behalf of the Funds, managing and monitoring the performance of such investments and disposing of such investments. Where Funds acquire an influential position, the Adviser may be in a position to exercise influence over

and add value to such investments. The Funds may make investments in both publicly-listed and privately-held companies. In addition, the Adviser may provide advice concerning the following securities and instruments, among others:

- Bank Loans and Bank Participations;
- Repurchase Agreements;
- Banker's Acceptances;
- Private Placements or other securities that are not registered or are exempt from registration under the United States Securities Act of 1933, as amended (the "Securities Act"), such as Rule 144A securities;
- Bonds, convertible securities and equity securities issued by foreign issuers and/or denominated in foreign currencies;
- Domestic and international convertible securities including, but not limited to (a) convertible securities that are convertible or exchangeable into equity securities of publicly traded US companies, and (b) convertible securities that are convertible or exchangeable into equity securities of foreign companies listed on a foreign exchange or represented by American Depositary Receipts listed on the New York Stock Exchange or the NYSE Alternext U.S., formerly known as the American Stock Exchange;
- Futures contracts, forward contracts, swaps, swaptions, commodities, hybrid securities, other 'synthetic' or derivative instruments, short sales, trades executed on margin, credit-linked notes, credit default notes and credit swaps; or
- Certain real estate related debt instruments.

Generally, the Adviser's investment strategy is not subject to specific restrictions regarding the exposure of a Fund's overall portfolio or investments in a single issuer or a single industry. However, the Adviser may, from time to time, adopt internal guidelines regarding its exposure and such investments.

From time to time the Adviser may cause the Funds to invest cash held by the Funds in temporary investments on a short-term basis, pending investment, distribution to investors or payments of expenses or other obligations of the Funds. Such temporary investments shall principally take the form of treasuries, agencies, corporate debt securities, commercial paper and certificates of deposit.

Risks

Investing in securities involves a substantial degree of risk. A Fund may lose all or a substantial portion of its investments, and investors in the Funds must be prepared to bear the risk of a complete loss of their investments.

In addition, material risks relating to the investment strategies and methods of analysis described above, and to the types of securities typically purchased by or for the Funds in connection with those strategies and methods, include the following:

Confidential Information

The Adviser may, as a holder of loans or through its or its affiliates' management of the other clients, be entitled to receive material, non-public information regarding borrowers that may limit the ability of a Fund, under applicable securities laws or contracts, to trade in the public securities of such borrowers. To avoid some of these restrictions, the Adviser may elect not to receive such non-public information. As a result, a Fund, at times, may receive less information regarding a borrower than is available to the other investors in such borrower's loan.

Tax Risks from Investments in Portfolio Companies of Certain Clients

A Fund may be presented with attractive opportunities to acquire debt of a company in which certain clients of the Adviser or its affiliates hold an equity interest. Under certain circumstances, an acquisition of such debt by a Fund may result in adverse U.S. tax consequences to such company and to the Fund. Specifically, if a Fund were treated as being related to such company for U.S. tax purposes, an acquisition by the Fund of such company's debt at a discount to the adjusted issue price of such debt may result in such company recognizing cancellation of indebtedness income and the Fund being required to treat the discount as "original issue discount" (rather than "market discount"), resulting in phantom income to investors in the Fund. It is possible that the Adviser or its affiliates may decide not to acquire such debt to avoid these or other adverse tax consequences.

Non-U.S. Investments Risks

Certain non-U.S. investments involve risks and special considerations not typically associated with United States investments. Such risks include but are not limited to: (i) the risk of nationalization or expropriation of assets or confiscatory taxation; (ii) social, economic and political uncertainty, including war and revolution; (iii) dependence on exports and the corresponding importance of international trade; (iv) greater price fluctuations and market volatility, less liquidity and smaller capitalization of securities markets; (v) currency exchange rate fluctuations; (vi) higher rates of inflation; (vii) controls on, and changes in controls on, non-U.S. investment and limitations on repatriation of invested capital and on a Fund's ability to exchange local currencies for United States dollars; (viii) governmental involvement in and control over the economies; (ix) governmental decisions to discontinue support of economic reform programs generally and to impose centrally planned economies; (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (xi) less extensive regulation of the securities markets; (xii) longer settlement periods for securities transactions; (xiii) less publicly available information; (xiv) the difficulty of enforcing legal rights in a non-U.S. jurisdiction and uncertainties as to the status, interpretation and application of laws; and (xv) less developed corporate laws regarding fiduciary duties and the protection of investors. Non-U.S. markets may be subject to greater influence by adverse events generally affecting the market, and by large investors trading significant blocks of securities, than is usual in the United States. Brokerage commissions and other transaction costs on securities exchanges in non-U.S. countries are generally higher than in the United States. Non-U.S. securities settlements may in some instances be subject to delays and related administrative uncertainties. In some countries there are restrictions on investments or investors such that the only practicable way for a Fund to invest in such markets is by entering into swaps

or other derivative transactions with its prime brokers or others. Such transactions involve counterparty risks which are not present in the case of direct investments and which may not be controllable by the Adviser.

Non-U.S. Currency and Exchange Risks

To the extent that a Fund directly or indirectly holds assets in local currencies in countries outside the United States, the Fund will be exposed to a degree of currency risk that may adversely affect performance. The investments of a Fund that are not denominated in the U.S. dollar are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. Officials in foreign countries may from time to time take actions in respect of their currencies that could significantly affect the value of a Fund's assets denominated in those currencies or the liquidity of such investments. For example, a foreign government may unilaterally devalue its currency against other currencies, which would typically have the effect of reducing the U.S. dollar value of investments denominated in that currency. A foreign government may also limit the convertibility or repatriation of its currency or assets denominated in that currency. A Fund may, but is not required to, invest in foreign currencies, foreign currency futures contracts and options thereon, forward foreign currency exchange contracts, or any combination thereof for hedging purposes, but there can be no assurance that such strategies will be implemented, and if implemented, will be effective. A Fund may incur costs in connection with conversions between various currencies. A Fund may also conduct its non-U.S. currency exchange transactions in anticipation of funding investment commitments or receiving proceeds upon dispositions.

Hedging Risks

The Adviser may hedge some or all of a Fund's investments or other assets by entering into hedging arrangements with a broker, a bank or other organizations. Hedging against a decline in the value of an investment or other asset of a Fund does not completely eliminate risks associated with fluctuations in the values of such investment or asset, or prevent losses if the values of such investment or asset decline. The hedging arrangements seek to establish other positions designed to gain from those same fluctuations in order to moderate the decline in the values of the investment or asset. Therefore, the hedging arrangements will limit the opportunity for gain if the values of the investment or asset subject to hedging should increase. In the event of an imperfect correlation between a position in a hedging arrangement and the investment or asset that it is intended to protect, the desired protection may not be obtained and the Fund may be exposed to risk of loss. In addition, it is often not possible to hedge fully or perfectly against all risks, and hedging entails its own costs. The Adviser or its affiliates may determine in its sole discretion not to hedge against certain risks, and certain risks may exist that cannot be hedged. A Fund's hedging arrangements that are undertaken through brokers, banks or other organizations will subject the Fund to the risk of default or insolvency of such organizations. In such event, there can be no assurance that any money advanced to such organizations would be repaid or that the Fund would have any recourse in such event of non-payment.

Lack of Diversification

A Fund may not be highly diversified. Lack of diversification would expose a Fund to losses disproportionate to market declines in general if there were disproportionately greater adverse price movements in the particular investments held by a Fund. To the extent a Fund invests a relatively high percentage of its assets in bank loans or other debt instruments of a limited number of borrowers, a Fund will be more susceptible than a more widely diversified investment partnership to the negative consequences of a single corporate, economic, political or regulatory event.

Valuation of Illiquid Assets

The process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties and the resulting values may differ from values that would have been determined had an active market existed for such securities and may differ from the prices at which such securities may ultimately be sold. Third-party pricing information may at times not be available regarding certain of a Fund's assets.

Leverage; Ability to Obtain Leverage

The Adviser intends to use leverage to achieve a higher rate of return. While leverage presents opportunities for increasing a Fund's total return, it may increase losses as well. Accordingly, any event that adversely affects the value of an investment by a Fund would be magnified to the extent leverage is used. The cumulative effect of the use of leverage by a Fund in a market that moves adversely to the Fund's investments could result in a loss to the Fund that would be greater than if the Fund was not leveraged. In connection with borrowings by a Fund, a Fund may pledge its assets, subject to any limitations set forth in the organizational documents of the applicable Funds. If a Fund were to default under a credit facility, the lenders under such credit facility could foreclose on the collateral and take possession of those assets pledged by the Fund.

There can be no guarantee that a Fund will be able to obtain appropriate amounts of leverage, or that leverage may be obtained on terms and pricing that the Adviser finds attractive. As a result, the investments of the Fund may not be leveraged, or may not be leveraged at an amount that would be most appropriate for the Fund. Should the appropriate amount of leverage not be obtained or used by a Fund, the total returns for the Fund may be lower than they would have been had such amount of leverage been used.

The extent to which a Fund uses leverage (directly or indirectly) may have important consequences to the investors in the Fund, including, but not limited to, the following: (i) greater fluctuations in the net assets of the Fund; (ii) use of cash flow for debt service, rather than for additional investments, distributions, or other purposes; (iii) to the extent that Fund revenues are required to meet principal payments, the partners may be allocated income (and therefore tax liability) in excess of cash available for distribution; and (iv) in certain circumstances the Fund may be required to sell instruments prematurely to service its debt obligations. There can also be no assurance that a Fund will have sufficient cash flow to meet its debt service obligations. As a result, a Fund's exposure to losses may be increased due to illiquidity of its investments generally.

Risks of Derivative Instruments

A Fund may engage in a variety of derivative transactions. A derivative is a financial contract the value of which depends upon, or is derived from, the value of underlying assets, reference rates or indices. Derivatives may relate to securities, interest rates, currencies or currency exchange rates, inflation rates, commodities and related indices, and include foreign currency contracts, swap contracts, options, forward contracts, repurchase or reverse repurchase agreements or other over-the-counter contracts. A Fund may use derivatives for many purposes, including as a substitute for direct investment in securities or other assets, as a means to hedge other investments and to manage liquidity and excess cash. A Fund also may use derivatives as a way to adjust its exposure to various securities, markets and currencies without actually having to sell existing investments and/or make new investments.

The U.S. government recently enacted legislation which includes provisions for new regulation of the derivatives market, including new clearing, margin reporting and registration requirements. The ultimate impact of these regulatory changes remains unclear because much is left to rulemaking by the CFTC and the SEC. The regulatory changes could, however, restrict a Fund's ability to engage in derivatives transactions (including because certain types of derivatives transactions may no longer be available to a Fund), increase the costs of such derivatives transactions and/or mandate collateral or margin requirements. Additionally, while the new regulations and central clearing of some derivatives transactions are designed to reduce systemic risk (i.e., the risk that the interdependence of large derivatives dealers could cause such dealers to suffer liquidity, solvency or other challenges simultaneously), there is no assurance that the new clearing mechanisms will achieve that result. The new requirements may result in increased uncertainty about counterparty credit risk and could mean that a Fund will face less creditworthy counterparties on certain derivatives transactions. The new legislation may also limit the flexibility of a Fund to protect its interests in the event of an insolvency of a derivatives counterparty, because of powers granted to clearinghouses and to the Federal Deposit Insurance Corporation to transfer, limit or delay close-out of derivatives positions of insolvent clearing members or financial companies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action.

Certain derivatives contracts are required to be executed through swap execution facilities ("SEFs"). A SEF is a trading platform where multiple market participants can execute derivatives by accepting bids and offers made by multiple other participants in the platform. Such requirements may make it more difficult and costly for a Fund to enter into highly tailored or customized transactions. Trading swaps on a SEF may offer certain advantages over traditional bilateral over-the-counter trading, such as ease of execution, price transparency, increased liquidity and/or favorable pricing. Execution through a SEF is not, however, without additional costs and risks, as parties are required to comply with SEF and CFTC rules and regulations, including disclosure and recordkeeping obligations, and SEF rights of inspection, among others. SEFs typically charge fees, and if the Fund executes derivatives on a SEF through a broker intermediary, the intermediary may impose fees as well. A Fund also may be required to indemnify a SEF, or a broker intermediary who executes cleared derivatives on a SEF on the Fund's behalf, against any losses or costs that may be incurred as a result of the Fund's transactions on the SEF.

Derivative instruments involve risks different from, and, in certain cases, greater than the risks presented by more traditional investments. Derivative products are specialized instruments that require investment techniques and risk analyses different from those associated with other types of investments. The use of a derivative requires an understanding not only of the underlying instrument, but also of the derivative itself. In particular, the use and complexity of derivatives require the maintenance of adequate controls to monitor the transactions entered into and the ability to assess the risk that a derivative adds to a Fund's portfolio.

Many derivative instruments also have documentation risk. Because the contract for each over-the-counter derivative transaction is individually negotiated with a specific counterparty, there exists the risk that the parties may interpret contractual terms (e.g., the definition of default) differently when a Fund seeks to enforce its contractual rights. If that occurs, the cost and unpredictability of the legal proceedings required for a Fund to enforce its contractual rights may lead the Fund to decide not to pursue its claims against the counterparty. A Fund, therefore, assumes the risk that it may be unable to obtain payments the Adviser believes are owed to it under derivatives instruments or those payments may be delayed or made only after the Fund has incurred the costs of litigation. Also, payment amounts calculated in connection with standard industry conventions for resolving contractual issues (e.g., ISDA protocols and auction processes) may be different than would be realized if a counterparty were required to comply with the literal terms of the derivatives contract (e.g., physical delivery). There is little case law interpreting the terms of most derivatives or characterizing their tax treatment. In addition, the literal terms of an over-the-counter contract may be applied in ways that are at odds with the investment thesis behind the decision to enter into the contract.

Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives. Many derivatives, in particular over-the-counter derivatives, are complex and their valuation often requires modeling and judgment, which increases the risk of mispricing or improper valuation, and there can be no assurance that the pricing models employed by the Adviser will produce valuations that are consistent with the values realized when over-the-counter derivatives are actually closed out or sold. This valuation risk is more pronounced when a Fund enters into over-the-counter derivatives with specialized terms because the value of those derivatives in some cases is determined in part by reference to similar derivatives with more standardized terms. Improper valuations may result in increased cash payment requirements to counterparties, under collateralization and/or errors in calculation of a Fund's net asset value.

Furthermore, derivatives also involve the risk that changes in their value may not correlate perfectly with the assets, rates or indices they are designed to track. The risk may be more pronounced when outstanding notional amounts in the market exceed the amounts of the referenced assets. Suitable derivatives are not available in all circumstances. For example, the economic costs of taking some derivatives positions may be prohibitive. Consequently, a Fund's use of derivatives may not always be an effective means of furthering the Fund's investment objective. In addition to the above risks, derivatives are subject to market risk, counterparty risk, illiquidity risks, leverage risk, and non-U.S. currency risks, which are discussed elsewhere in this section.

Options

A Fund may invest in options. Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Although an option buyer's risk is limited to the amount of the original investment for the purchase of the option, an investment in an option may be subject to greater fluctuation than is an investment in the underlying securities. In theory, an uncovered call writer's loss is potentially unlimited, but in practice the loss is limited by the term of existence of the call. The risk for a writer of a put option is that the price of the underlying securities may fall below the exercise price. The ability to trade in or exercise options may be restricted in the event that trading in the underlying securities interest becomes restricted.

Unlike exchange-traded options, which are standardized with respect to the underlying instrument, expiration date, contract size, and strike price, the terms of over-the-counter options (options not traded on exchanges) are generally established through negotiation with the other party to the option contract. While this type of arrangement allows a Fund greater flexibility to tailor an option to its needs, over-the-counter options generally involve greater credit risk than exchange-traded options, which are guaranteed by the clearing organization of the exchanges where they are traded.

Swaps

A Fund may utilize swaps where it believes it will further the objectives of the Fund. Notional amounts of swap transactions are not subject to any limitations, and swap contracts may expose a Fund to unlimited risk of loss. Swaps may be used as an alternative to futures contracts. To the extent a Fund invests in repos, swaps, forwards, futures, options and other "synthetic" or derivative instruments, a Fund would be subject to counterparty risk.

Futures and Related Options

The Adviser may buy and sell futures contracts and related options on behalf of a Fund. A futures contract is an agreement between two parties to buy and sell a specific quantity of a commodity (including a securities index or an interest-bearing security) for a set price at a future date. A Fund may also buy and sell call and put options on futures or on securities indexes in addition to or as an alternative to purchasing or selling futures contracts, or, to the extent permitted by applicable law, to earn additional income.

The use of futures and related options involves certain special risks. Futures and options transactions involve costs and may result in losses. Certain risks arise because of the possibility of imperfect correlations between movements in the prices of futures and options and movements in the prices of the underlying securities, securities index, currencies or other commodities or of the securities or currencies in a Fund's portfolio which are the subject of the hedge (to the extent a Fund uses futures and options for hedging purposes). The successful use of futures and options further depends on the Adviser's ability to forecast market or interest rate movements correctly. Other risks arise from a Fund's potential inability to close out its futures or options positions, and there can be no assurance that a liquid secondary market will exist for any futures contract or option at a particular time. The use of futures and options for purposes

other than hedging is regarded as speculative. Certain regulatory requirements may also limit a Fund's ability to engage in futures and options transactions.

Short Sales

The Adviser makes short sales of investment securities on behalf of a Fund. In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. The making of short sales exposes a Fund to the risk of liability for the market value of the security that is sold, which is an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by a Fund at reasonable cost. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and the Fund may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

The SEC has in the past adopted interim rules requiring reporting of all short positions above a certain de minimis threshold and is expected to adopt rules requiring monthly public disclosure of short positions in the future. In addition, other non-U.S. jurisdictions where a Fund may trade have adopted reporting requirements. If a Fund's short positions or its strategy become generally known, it could have a significant effect on the Adviser's ability to implement its investment strategy. In particular, it would make it more likely that other investors could cause a "short squeeze" in the securities held short by a Fund forcing a Fund to cover its positions at a loss. Such reporting requirements may also limit the Adviser's ability to access management and other personnel at certain companies where the Adviser seeks to take a short position. In addition, if other investors engage in copycat behavior by taking positions in the same issuers as a Fund, the cost of borrowing securities to sell short could increase drastically and the availability of such securities to the Fund could decrease drastically. Such events could make a Fund unable to execute this investment strategy. The SEC has adopted restrictions on the short sale of securities which fall more than 10 percent in a given day (referred to as the "circuit breaker" or "modified uptick rule"). It is unclear what effect these restrictions will have on a Fund. If the SEC were to adopt additional restrictions on short sales, such restrictions could restrict a Fund's ability to engage in short sales in certain circumstances, and a Fund may be unable to execute this investment strategy as a result. The SEC and regulatory authorities in other jurisdictions may adopt (and in certain cases have adopted) bans on short sales of certain securities. Bans on short selling may make it impossible for a Fund to execute certain investment strategies and may have a material adverse effect on a Fund's ability to achieve its investment objective and generate returns. In addition, engaging in short selling may increase the risk of a Fund becoming subject to government investigation.

Counterparty Risk

A Fund is exposed to counterparty risk to the extent it uses certain derivatives, enters into repurchase agreements, lends its portfolio securities or posts margin due to changes in the market value of a derivative contract. If a counterparty fails to meet its contractual obligations, goes bankrupt, or otherwise experiences a business interruption, a Fund could miss investment opportunities or otherwise hold investments it would prefer to sell, resulting in losses for the Fund. Certain markets in which a Fund may effect transactions are “over-the-counter” or “interdealer” markets, and may also include unregulated private markets. The participants in such markets typically are not subject to the same level of credit evaluation and regulatory oversight as are members of “exchange-based” markets and the credit risk for exchange-traded derivatives is generally less than for over-the-counter derivatives because the clearing house, which is the issuer or counterparty to each exchange-traded derivative, provides additional protections in the event of non-performance by the counterparty. Therefore, the lack of a common clearing facility heightens counterparty risk. It exposes the investor 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 a Fund to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Fund has concentrated its transactions with a single or small group of counterparties. A Fund may also be exposed to similar risks with respect to non-U.S. brokers in jurisdictions where there are delayed settlement periods.

There can be no assurance that a counterparty will be able or willing to make timely settlement payments or otherwise meet its obligations, especially during unusually adverse market conditions. A Fund typically may only close out over-the-counter transactions with the relevant counterparty, and may only transfer a position with the consent of the particular counterparty. A Fund may invest in derivatives as to which the counterparty’s obligations are not secured by collateral, that require collateral but in which a Fund’s security interest is not perfected, that require significant upfront deposits unrelated to the derivatives’ intrinsic value, or that do not require the collateral to be regularly marked-to-market. When a counterparty’s obligations are not fully secured by collateral, a Fund is essentially an unsecured creditor of the counterparty. If the counterparty defaults, a Fund will have contractual remedies, but there is no assurance that a counterparty will be able to meet its obligations pursuant to such contracts or that, in the event of default, a Fund will succeed in enforcing contractual remedies. Even where obligations are required by contract to be collateralized, there is usually a lag between the day the collateral is called for and the day a Fund receives the collateral. Counterparty risk is still present even if a counterparty’s obligations are secured by collateral because a Fund’s interest in collateral may not be perfected or additional collateral may not be promptly posted as required.

Under recently adopted rules and regulations, transactions in some types of swaps (including interest rate swaps and credit default swaps on North American and European indices) are required to be centrally cleared. In a transaction involving those swaps (“cleared derivatives”), the Fund’s counterparty is a clearing house, rather than a bank or broker. Since the Fund is not a member of a clearing house and only members of a clearing house (“clearing members”) can participate directly in the clearing house, the Fund will hold cleared derivatives through accounts at a clearing member. In cleared derivatives transactions, the Fund will make payments

(including margin payments) to and receive payments from a clearing house through its accounts at a clearing member. A Fund may be treated as an unsecured creditor of its counterparty, clearing member in the event of insolvency. Clearing houses also have broad rights to increase margin requirements for existing transactions or to terminate those transactions at any time. Any increase in margin requirements or termination of existing cleared derivatives transactions by the clearing member or the clearing house could interfere with the ability of the Fund to pursue its investment strategy. Also, the Fund is subject to risk if it enters into a derivatives transaction that is required to be cleared (or that the Investment Adviser expects to be cleared), and no clearing member is willing or able to clear the transaction on the Fund's behalf. Such transactions might have to be terminated, and the Fund could lose some or all of the benefit of the transaction, including loss of an increase in the value of the transaction and/or loss of hedging protection.

Counterparty risk also may be more pronounced if (i) a counterparty's obligations exceed the amount of collateral held by a Fund (if any), (ii) a Fund is unable to exercise its interest in collateral upon default by the counterparty, or (iii) the termination value of the instrument varies significantly from mark-to-market value of the instrument. When a counterparty's obligations are not fully secured by collateral, a Fund is exposed to the risk of having limited recourse if the counterparty defaults. These risks may be particularly acute in environments in which financial services firms are exposed to systemic risks. During periods of market disruptions, a Fund may have a greater need for cash to provide collateral for large swings in the mark-to-market obligations arising under the derivatives used by a Fund.

A Fund will be exposed to the credit risk of its counterparties and may also bear the risk of settlement default. For example, although the seller under a repurchase agreement will be required to maintain the value of the securities subject to the agreement in an amount exceeding the repurchase price, default by the seller would expose a Fund, as buyer, to possible loss due to adverse market action or delay in connection with the disposal of the underlying obligations. Conversely, where a Fund acts as seller under a repurchase agreement it is exposed to the risk of the buyer defaulting in its obligation to return the securities when it is required to do so, and a Fund could realize a loss on the purchase of the underlying security to the extent that the purchase price of the underlying security is greater than the cash collateral posted by the buyer.

In addition, if the seller becomes involved in bankruptcy or litigation proceedings, the Fund may incur delay and costs in selling the underlying security or may suffer a loss of principal and interest if a Fund is treated as an unsecured creditor and is required to return the underlying collateral to the seller's estate.

Securities purchased or sold on a "when-issued" or "delayed delivery" basis involve a risk of loss if the value of the securities to be purchased declines prior to the settlement date or if the value of the securities to be sold increases prior to a settlement date. Loans of securities also involve risks of delay in receiving additional collateral or in recovering the securities loaned, or possibly loss of rights in the collateral, should the borrower of the securities become insolvent.

Due to the nature of a Fund's investments, a Fund may invest in derivatives and/or execute a significant portion of its securities transactions through a limited number of counterparties and events that affect the creditworthiness of any of those counterparties may have a pronounced

effect on a Fund. In addition, the creditworthiness of a counterparty may be adversely affected by larger than average volatility in the markets, even if the counterparty's net market exposure is small relative to its capital. A Fund is not restricted from dealing with any particular counterparty or from concentrating any or all transactions with one counterparty. The ability of a Fund to transact business with any one of a number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by a Fund. A Fund may sustain a loss as a result of the failure of the other party to a derivative to comply with the terms of the derivative contract.

Custodial Risk

A Fund's prime brokers will have custody of a Fund's securities, cash, distributions and rights accruing to a Fund's securities accounts. SEC rules require the prime brokers to maintain physical possession and control of fully paid securities held in a Fund's account and to establish certain reserves for the benefit of customers. However, subject to these limitations, the prime brokers generally have the ability to loan, pledge, and rehypothecate the securities in a Fund's account, as is typical market practice, and may have insufficient assets to meet all of its obligations to customers in the event of an insolvency of a prime broker. In such an event, a Fund would typically not have a right to recover its securities held by the prime broker, but would rather have only an unsecured claim against the prime broker and participate pro rata with other customers of the prime broker in the proceeds of the sale of customer securities. Also, even if the prime broker has sufficient assets to meet all customer claims, there could be a delay before a Fund receives assets to satisfy its claims. In order to manage the risks associated with prime broker insolvency, a Fund may establish relationships with multiple prime brokers. However, a Fund may not be able to identify potential solvency concerns with respect to a Fund's prime brokers or to transfer assets from one prime broker to another prime broker in a timely manner.

The prime brokers may hold a Fund's securities through third parties such as clearing corporations, other brokers or banks. In addition, a Fund may hold securities, cash and other assets directly with banks or other third parties not associated with the prime brokers. As a result, a Fund may be subject to credit risk with respect to such third parties as well as with respect to the prime brokers. In addition, certain of a Fund's assets may be held by non-U.S. affiliates of a Fund's prime brokers and entities other than the prime brokers. Assets held by such non-U.S. affiliates may be subject to legal regimes that provide fewer or different investment protections than the U.S. If a Fund has over-collateralized derivative contracts, it is likely to be an unsecured creditor of any such counterparty in the event of its insolvency. Also, even if a Fund's prime broker or such other third parties have sufficient assets to meet all claims, there could be a delay before a Fund receives assets to satisfy its claims. A Fund may change the brokerage arrangements described above at any time without notice. There are likely to be operational and other delays associated with changes in prime brokerage arrangements.

Collateral Obligation Performance Risk

Negative economic trends nationally as well as in specific geographic areas of the United States could result in an increase in loan defaults and delinquencies. Though levels of defaults and

delinquencies have been decreasing from peak levels, there is a material possibility that economic activity will be volatile or will slow, and some obligors may be significantly and negatively impacted by negative economic trends. A continuing decreased ability of obligors to obtain refinancing (particularly as high levels of required refinancing approach) may result in a further economic decline that could delay an economic recovery and cause a further deterioration in loan performance generally. There is no way to determine whether such trends in the credit markets will improve or worsen in the future.

Credit and Market Risks

A Fund's investments will entail normal credit risks and market risks (e.g., the risk that certain market factors will cause the value of the instrument to decline).

To the extent that a Fund invests in bank loans and other debt instruments, the value of a Fund may fluctuate less significantly as a result of interest rate changes than would a portfolio of fixed-rate obligations. A Fund that invests in bank loans may still be subject to fluctuations due to changes in an issuer's credit quality. In addition, because interest rates on bank loans only reset periodically and may not perfectly correlate with prevailing interest rates, during such time as the interest rate of a loan is fixed, such loan may be subject to the same fluctuations due to interest rate changes as fixed-rate obligations of similar duration. Also, a default on a loan that is held by a Fund or a sudden and extreme increase in prevailing interest rates may cause a decline in a Fund's asset value.

Public Debt

In the event that a Fund acquires fixed income securities and/or other instruments that are publicly traded, the Fund will be subject to certain inherent risks. In some circumstances, a Fund may be unable to obtain financial covenants or other contractual rights, including management rights, that it might otherwise be able to obtain in making privately-negotiated debt investments. Moreover, a Fund may not have the same access to information in connection with investments in public instruments, either when investigating a potential investment or after making an investment, as compared to a privately-negotiated debt investment.

Bank Loans and Participations

Certain Funds will seek to invest in bank loans and participations. These obligations are subject to certain special risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of a Fund to enforce its rights directly with respect to participations. Successful claims by third parties arising from these and other risks, absent certain conduct by the Adviser and certain other individuals, will be borne by the Fund.

Bank Debt Ratings

The ratings that may be assigned by various credit rating agencies to loans or other debt instruments that may be acquired by a Fund reflect only the views of those agencies.

Explanations of the significance of ratings should be obtained from such credit rating agencies. No assurance can be given that ratings assigned will not be withdrawn or revised downward if, in the view of such credit rating agency, circumstances so warrant.

Longer Settlement for the Purchase of Bank Loans

The settlement process for the purchase of bank loans can take several days and, in certain instances, several weeks longer than a bond trade. The longer a trade is outstanding between the counterparties may increase the risk of additional operational and settlement issues and the potential for a Fund's counterparty to fail to perform.

Highly Leveraged Borrowers

Certain Funds may invest in securities of highly leveraged borrowers. A borrower's leverage may adversely impact a Fund in a number of ways, such as creating a greater possibility of default or bankruptcy of the borrower. It is also possible that the pledging of collateral (if any) to secure the securities could be found to constitute a fraudulent conveyance or preferential transfer, which would be nullified or subordinated to the rights of other creditors of the borrower under applicable law. Additionally, depending on the level of the capital structure in which a Fund acquires investments, the Fund may be subject to a greater risk of loss than if it acquires securities higher in the capital structure.

Prepayment of Obligations

Certain Funds may purchase loans where the underlying borrowers are not subject to any repayment penalties, even if a borrower determines to prepay the obligation early during the term of the loan. If the loans that a Fund is invested in are prepaid without any prepayment penalties, the Fund's ability to achieve its investment objective may be negatively affected.

Unsecured Loans and Collateral Impairment

In the event of a default by a borrower, a Fund might not receive payments to which it is entitled and thereby could experience a decline in the value of its investment in the borrower. If a Fund invests in loans that are not secured by collateral, in the event of such default the Fund will have only an unsecured claim against the borrower. In the case of loans that are secured by collateral, while the Adviser generally expects the value of the collateral to be greater than the value of such secured loans, the value of the collateral may actually be equal to or less than the value of such loans or may decline below the outstanding amount of such loans subsequent to a Fund's investment. The ability of a Fund to have access to the collateral may be limited by bankruptcy and other insolvency laws. There is no assurance that the liquidation of the collateral securing a loan would satisfy the borrower's obligation in the event of nonpayment of scheduled interest or principal, or that the collateral could be readily liquidated. As a result, a Fund might not receive full payment on a secured loan investment to which it is entitled and thereby may experience a decline in the value of, or a loss on, the investment.

Second-Lien Loans

A Fund may invest in second-lien loans, which entail risks, including (i) the subordination of the Fund's claims to a senior lien in terms of the coverage and recovery of the collateral and (ii) the prohibition of or limitation on the right to foreclose on a second-lien or exercise other rights as a second-lien holder. In certain cases, therefore, no recovery may be available from a defaulted second-lien loan. The level of risk associated with investments in second-lien loans increases to the extent such investments are loans of distressed or below investment grade companies.

Lower Rated Loans and Debt Instruments

A Fund may invest in loans and other debt instruments that are rated below investment grade by the various credit rating agencies, or trade at a yield similar to non-investment grade debt (and in comparable non-rated loans). Loans and debt instruments rated in the lower rating categories are subject to greater risk of loss of principal and interest than higher-rated loans and debt instruments and are generally considered to be predominantly speculative with respect to the borrower's capacity to pay interest and repay principal. They are also considered to be subject to greater risk than investment grade rated debt instruments in the case of deterioration of general economic conditions. Because investors perceive that there are greater risks associated with such loans and debt instruments, the yields and prices of such loans and debt instruments may be more volatile than those for higher-rated loans and debt instruments. The market for lower-rated loans and debt instruments is thinner, often less liquid and less active than that for higher-rated loans and debt instruments, which may adversely affect the prices at which such loans and debt instruments may be sold and may make it impractical to sell such loans or debt instruments. It should be recognized that an economic downturn is likely to have a negative effect on the debt market as well as on the ability of the borrowers of such debt, especially highly leveraged borrowers, to service principal and interest payment obligations to meet their projected business goals or to obtain additional financing. If a borrower of a loan owned by a Fund defaults on such loan, the Fund may incur additional expenses to seek recovery, and the possibility of any recovery may be subject to the expense and uncertainty of insolvency proceedings.

High Yield and Distressed Instruments

A Fund may invest in bridge loans, "high yield" bonds that are rated in the lower rating categories by the various credit rating agencies or comparable non-rated securities. Securities in the lower-rated categories and comparable non-rated securities are subject to greater risk of loss of principal and interest than higher-rated and comparable non-rated securities and are generally considered to be predominantly speculative with respect to the borrower's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings or comparable non-rated securities in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated and comparable non-rated securities, the yields and prices of such securities may be more volatile than those for higher-rated and comparable non-rated securities. The market for lower-rated and comparable non-rated securities is thinner, often less liquid, and less active than that for higher-rated or comparable non-rated securities, which may adversely affect the prices at which these securities may be sold and may make it impractical to sell such securities.

Cov-Lite Loans

A Fund may invest in Cov-Lite Loans, which contain limited, if any, financial covenants. Generally, such loans either do not require the obligor to maintain debt service or other financial ratios or do not contain common restrictions on the ability of the obligor to change significantly its operations or to enter into other significant transactions that could affect its ability to repay such loans. As a result, a Fund's exposure to different risks may be increased, including with respect to liquidity, price volatility and ability to restructure loans, than is the case with loans that have such requirements and restrictions.

Convertible Securities

A Fund may invest in convertible securities, which are debt securities or preferred equity securities that are exchangeable for other debt or equity securities of the issuer at a predetermined price. Convertible securities entitle the holder to receive interest payments on corporate debt securities or the dividend preference on preferred equity securities until such time as the convertible security matures, or is redeemed or until the holder elects to exercise the conversion privilege. As a result of the conversion feature, convertible securities typically offer lower interest rates than if the securities were not convertible. It is possible that the potential for appreciation on convertible securities may be less than that of a common stock equivalent.

Convertible securities may or may not be rated within the four highest categories by S&P and Moody's and, if not so rated, would not be investment grade. To the extent that convertible securities are not investment grade, there would be greater risk as to timely repayment of the principal of, and interest or dividends on, those securities.

Also, in the absence of adequate anti-dilution provisions in a convertible security, dilution in the value of a Fund's holding may occur in the event the underlying stock is subdivided, additional securities are issued, a stock dividend is declared or the issuer enters into another type of corporate transaction which increases its outstanding securities.

Nature of Bankruptcy Proceedings

A Fund may invest in companies that are at or near bankruptcy. There are a number of significant risks when investing in companies involved in bankruptcy proceedings, including the following: First, many events in a bankruptcy are the product of contested matters and adversary proceedings that are beyond the control of the creditors. Second, a bankruptcy filing may have adverse and permanent effects on a company. For instance, the company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. Furthermore, if the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor's return on investment can be impacted adversely by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court, and until it ultimately becomes effective. Fourth, certain claims, such as claims for taxes, wages and certain trade claims, may have priority by law over the claims of certain creditors. Fifth, the administrative costs in connection with a bankruptcy proceeding are frequently high and will be

paid out of the debtor's estate prior to any return to creditors. Sixth, creditors can lose their ranking and priority in a variety of circumstances, including if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions. Finally, a Fund may seek representation on creditors' committees and as a member of a creditors' committee it may owe certain obligations generally to all creditors similarly situated that the committee represents and it may be subject to various trading or confidentiality restrictions. If the Adviser concludes that a Fund's membership on a creditors' committee entails obligations or restrictions that conflict with the duties it or one of its affiliates owes to the investors in the Fund or any clients of the Adviser or its affiliates, or that otherwise outweigh the advantages of such membership, the Fund may not seek membership in, or may resign from, that committee. Because a Fund will indemnify the Adviser and its affiliates or any other person serving on a committee on behalf of the Fund for claims arising from breaches of those obligations, indemnification payments could adversely affect the return on the Fund's investment in a reorganization company.

Third-Party Litigation

A Fund's investment activities subject it to the risk of becoming involved in litigation by third parties. This risk is somewhat greater where the Fund exercises control of, or significant influence over, a company's direction. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would, absent certain conduct by the Adviser and its affiliates, be borne by the Fund, would reduce net assets and could require investors to return to the Fund distributed capital and earnings. The Adviser and its affiliates are entitled to be indemnified by a Fund in connection with such litigation, subject to certain limitations.

Equity Risks

The market price of securities owned by a Fund may go up or down, sometimes rapidly or unpredictably. A risk of investing in a Fund is that the equity securities in its portfolio will decline in value due to factors affecting equity securities markets generally or particular industries represented in those markets. The values of equity securities may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities which the Adviser believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Adviser anticipates. As a result, a Fund may lose all or substantially all of its investment in any particular instance.

Warrants

A Fund may receive or purchase warrants or rights. Warrants and rights generally give the holder the right to receive, upon exercise, a security of the issuer at a stated price. Risks associated with the use of warrants and rights are generally similar to risks associated with the use of options. Unlike most options, however, warrants and rights are issued in specific amounts, and warrants generally have longer terms than options. Warrants and rights are not likely to be as liquid as exchange-traded options backed by a recognized clearing agency. In addition, the terms of warrants or rights may limit a Fund's ability to exercise the warrants or rights at such time, or in such quantities, as the Fund would otherwise wish.

Financial Market Fluctuations

General fluctuations in the market prices of securities may affect the value of the investments held by a Fund. Instability in the securities markets will also likely increase the risks inherent in a Fund's investments. There is no guarantee that ordinary and prudent precautions for natural and other disasters will provide an effective connection between the Adviser and markets in the event of large-scale disruptions in the United States or, alternatively, in the countries where the Adviser executes trades.

Lack of Liquidity in Markets

The markets for many securities and other investments in which a Fund is invested may be thinly traded from time to time. This lack of liquidity and market depth could disadvantage a Fund, both in the realization of the prices which are quoted and in the execution of orders at desired prices or in desired quantities. Also, domestic and international securities exchanges and the SEC and other regulatory authorities have authority to suspend trading in a particular security without notice.

A Fund also may make investments in bank loans and participations, other debt instruments and obligations and other securities senior to common equity. Although many syndicated bank loans and other debt instruments trade in an active secondary market, certain of a Fund's investments may be highly illiquid, and there can be no assurance that a Fund will be able to realize a return on such investments in a timely manner. Consequently, dispositions of such investments may require a lengthy time period or may result in distributions of securities in kind to investors that may or may not be marketable.

Additionally, a Fund's investments may be subject to certain transfer restrictions that may also contribute to illiquidity. A portion of a Fund's investments may consist of securities that are subject to restrictions on resale by the Fund because they were acquired in a "private placement" transaction or because the Fund is deemed to be an affiliate of the issuer of such securities. Generally, the Fund will be able to sell such securities only under Rule 144 under the Securities Act, which permits limited sales under specified conditions, or pursuant to a registration statement under the Securities Act. When restricted securities are sold to the public, a Fund may be deemed to be an underwriter or possibly a controlling person, with respect thereto for the purposes of the Securities Act and be subject to liability as such under the Securities Act.

Finally, a Fund's assets that are typically traded in a liquid market may become illiquid if the applicable trading market tightens as a result of a significant macro-economic shock or for any other reason.

Investment in Small Companies

There is often no limitation on the size or operating experience of the companies in which a Fund may invest. Some small companies in which a Fund may invest may lack management depth or the ability to generate internally or obtain externally the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Further, such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Such companies may be small factors in their industries and may face intense competition from larger companies and entail a greater risk than investment in larger companies.

Middle Market Companies

A Fund may invest in the debt obligations or securities of middle market and/or less well-established companies. While middle market companies may have potential for rapid growth, they often involve higher risks. Middle market companies have more limited financial resources than larger companies and may be unable to meet their obligations under their debt securities that a Fund holds, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of a Fund realizing any guarantees it may have obtained in connection with its investment. Middle market companies also typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns. Less publicly available information may be available about these companies and they may not be subject to the financial and other reporting requirements applicable to public companies. They are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on the company and, in turn, on a Fund. Middle market companies may also have less predictable operating results and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. They may also have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

Market Disruption and Geopolitical Risk

A Fund is subject to the risk that war, terrorism, and related geopolitical events may lead to increased short-term market volatility and have adverse long-term effects on the U.S. and world economies and markets generally, as well as adverse effects on issuers of securities and the value of a Fund's investments. These events, as well as other changes in U.S. and non-U.S. economic and political conditions, also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment and other factors affecting the value of a Fund's investments.

Cash and Other Investments

A Fund may invest all or a portion of its assets in cash or cash equivalents for investment purposes, pending other investments or as provision of margin for futures or forward contracts. These cash equivalents must be of high quality at the time of investment and may include a number of money market instruments such as negotiable or non-negotiable securities issued by or short-term deposits with the U.S. and non-U.S. governments and agencies or instrumentalities thereof, bankers' acceptances, high quality commercial paper, repurchase agreements, bank certificates of deposit, and short-term debt securities of U.S. or non-U.S. issuers deemed to be creditworthy by the Adviser. A Fund may also hold interests in investment vehicles that hold cash or cash equivalents. While investments in cash equivalents generally involve relatively low risk levels, they may produce lower than expected returns, and could result in losses. Investments in cash equivalents and money market funds may also provide less liquidity than anticipated by a Fund at the time of investment.

Other Instruments and Future Developments

A Fund may take advantage of opportunities in the area of swaps, options on various underlying instruments and swaptions and certain other customized "synthetic" or derivative investments in the future. In addition, a Fund may take advantage of opportunities with respect to certain other "synthetic" or derivative instruments which are not presently contemplated for use by a Fund or which are currently not available. To the extent such opportunities are both consistent with a Fund's investment objective and legally permissible for the Fund, special risks may apply to a Fund's investments in the future.

Portfolio Turnover

The investment strategy of a Fund may require the Adviser or its affiliates to actively trade a Fund's portfolio, and as a result, turnover and brokerage commission expenses of a Fund may significantly exceed those of other investment entities of comparable size.

Basis Risk

A Fund may invest in both bonds and credit default swaps across different capital structures or within the same capital structure. While the Adviser believes bonds and credit default swaps typically move in a correlated fashion, there is no guarantee that this relationship will hold at all times. Should a Fund's bond and credit default swap positions diverge or fail to converge toward the Adviser's expectations, the Fund may incur a loss.

Convergence Risk

A Fund may pursue relative value strategies by taking long positions in securities believed to be undervalued and short positions in securities believed to be overvalued. In the event that the perceived mispricings underlying a Fund's trading positions were to fail to converge toward, or were to diverge further from, the Adviser's expectations, a Fund may incur a loss.

Interest Rate Risk

Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. The Adviser may attempt to minimize the exposure of the portfolios to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that the Adviser will be successful in fully mitigating the impact of interest rate changes. Furthermore, when interest rates rise, repayments of fixed income securities may occur more slowly than anticipated, extending the effective duration of these fixed income securities at below market interest rates and causing their market prices to decline. This may cause the values of securities held by a Fund to be more volatile.

Non-Disclosure of Positions

In an effort to protect the confidentiality of its positions, a Fund generally will not disclose all of its positions to its investors on an ongoing basis, although the Adviser, in its sole discretion, may permit such disclosure on a select basis to certain investors, if it determines that there are sufficient confidentiality agreements and procedures in place.

Mortgage Trust Risk

An investment in certain of the Funds will involve exposure to real estate assets, including without limitation multi-family mortgage loans presently owned by Freddie Mac and targeted for securitization (“Real Estate Assets”), as well as the risks associated with investments in the Real Estate Assets and serving as Directing Certificateholder with respect to certain trusts issuing the Real Estate Assets (a “Trust”). Purchasers of interests in such Funds will not hold interests in a Trust and will have no direct interest in a Trust, will have no voting or consent rights in the Trust and will have no standing or recourse against the Trust or its sponsors or their respective affiliates or any of their respective general partners, investment advisors, officers, directors, employees, partners or members. There can be no assurance that the Trust will achieve its investment objective. Investors in such Funds are subject to the risk of each Trust.

Mortgage-Backed Securities Generally

A Fund may invest in mortgage-backed securities (“MBS”), which are securitized debt obligations, typically issued in senior and subordinated classes and structured with various forms of credit enhancements. The yield and payment characteristics of MBS differ from traditional debt securities. Interest and principal prepayments are made more frequently, usually monthly, over the life of the mortgage loans and principal generally may be prepaid at any time because the underlying mortgage loans generally may be prepaid at any time. MBS are therefore subject to prepayment risk. In particular, faster or slower prepayments than expected on underlying mortgage loans can increase volatility and dramatically alter the yield to maturity of an MBS, and early repayment of principal on some MBS may expose a Fund to a lower rate of return upon reinvestment of principal. It is also possible that the marketability of interest-only tranches of MBS will be affected by interest rate fluctuations.

The value of most MBS, like traditional debt securities, tends to vary inversely with changes in interest rates. When interest rates rise, the value of MBS generally will decline; however, when interest rates decline, the value of MBS with prepayment features may not increase as much as other fixed income securities because prepayment of mortgage loans tends to accelerate during periods of declining interest rates. Alternatively, during periods of rising interest rates, the average life of certain types of MBS may be extended because of slower than expected principal payments. This could in effect result in locking in a below-market interest rate, increasing the security's duration and reducing the value of the security. Extension risk may be heightened during periods of adverse economic conditions generally, as payment rates decline due to higher unemployment levels and other factors.

A Fund may invest in MBS that are subordinate in right of payment and rank junior to other securities. Investments in subordinated MBS involve greater credit risk of default than is applicable to the senior classes. Many of the default-related risks of mortgages will be magnified in subordinated securities. Default risks may also be further pronounced in the case of MBS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans.

Recent developments in the market for many types of mortgage products (including MBS) have resulted in substantially reduced liquidity for these assets. Although this reduction in liquidity has been most acute with regard to sub-prime assets, there has been an overall reduction in liquidity across the credit spectrum of mortgage products, which could have an adverse impact on the Fund's MBS investments.

In addition, MBS are subject to risks relating to mortgage loans and real estate assets, which are described elsewhere in these Risk Factors. In particular, the value of MBS may be substantially dependent on the servicing of the underlying asset pools and are therefore subject to risks associated with the fraud or negligence by, or defalcation of, their servicers. In certain circumstances, the mishandling of related documentation may also affect the rights of certificateholders in and to the underlying collateral.

Repackaged Securities

A Fund may repackage certain of the securities constituting the real estate assets. Repackaged securities are typically structured using an entity that acquires securities of one or more issuers (the "underlying MBS") through the secondary market and/or in private transactions and then sells certificates representing interests in the underlying MBS. Investments in repackaged securities are subject to many of the same risks applicable to investments in the Trust as described herein, as well as risks associated with the underlying mortgage loans, issuer, and their underlying securities.

Real Estate Loans

The value of the real estate underlying the mortgage loans represented by the real estate assets is subject to market conditions. Changes in the real estate market may adversely affect the value of the collateral and thereby lower the value to be derived from a liquidation. In addition, adverse changes in real estate values increase the probability of default on the mortgage loans, as the

incentive of the borrower to retain equity in the property declines. Loans may become non-performing for a wide variety of reasons, including, without limitation, because the mortgaged property is too highly leveraged (and, therefore, the property is unable to generate sufficient income to meet its debt service payments), the property is poorly managed, or because the mortgaged property has a high vacancy rate, has not been fully completed or is in need of rehabilitation. Such non-performing loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments, and a substantial write-down of the principal of the loan.

Of paramount concern in the purchase of certificates representing interests in loans secured by real estate is the possibility of material misrepresentation or omission on the part of the borrower or seller. Such inaccuracy or incompleteness may adversely affect the valuation of the real estate underlying the loans or may adversely affect the ability of the lender to perfect or effectuate a lien on the real estate or other collateral securing the loan. Under certain circumstances, payments to a Fund may be reclaimed if such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Under environmental laws, owners of property may be liable for the clean up and removal of hazardous substances even where the owner was not responsible for placing the hazardous substances on the property or where the property was contaminated prior to the time the owner took title. The kinds of hazardous substances for which liability may be incurred include, inter alia, chemicals and other materials commonly used by small businesses and manufacturing operations. The costs of removal and clean-up of hazardous substances and wastes can be extremely expensive and, in some cases, can exceed the value of a property. In addition, the presence of hazardous substances may adversely affect an owner's ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of an underlying property becomes liable for removal costs, the ability of the owner to make debt payments may be reduced, which in turn may materially adversely affect the value of the relevant real estate assets held by a Fund. Similarly, real estate is subject to loss due to special hazards such as floods, earthquakes and hurricanes. It may be impractical or impossible to fully insure against such hazards.

Commercial Mortgage Loans

A Fund may hold or (through its investments in commercial mortgage-backed securities ("CMBS")) be exposed to commercial mortgage loans. Commercial mortgage loans are generally secured by multi-family or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss can be greater than similar risks associated with residential mortgage loans that are secured by single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property is dependent primarily upon the successful operation of such property. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing multi-family property can be affected by, among other things: property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property, the occurrence of any uninsured casualty at

the property, changes in national, regional or local economic conditions, declines in regional or local real estate values, declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, terrorism, social unrest and civil disturbances. A multi-family property may not readily be converted to an alternative use in the event that the operation of such property for its original purpose becomes unprofitable. In such cases, the conversion of the property to an alternative use would generally require substantial capital expenditures and may not be possible due to zoning covenants, restrictions or agreements. The liquidation value of any such multi-family property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such multi-family property were readily adaptable to other uses.

Defaults and Foreclosures on Mortgage Loans; Eminent Domain

A Fund may make investments in loans, or securities backed by loans, that may be at the time of their acquisition, or may become after acquisition, non-performing loans. In the event of any default under a loan directly held by a Fund or a loan underlying a security held by a Fund, the Fund will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and any unpaid principal and accrued interest of the loan, which could have a material adverse effect on the Fund's cash flow from operations. Other non-performing loans may require workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the original principal amount of such loans. Further, even if a restructuring were successfully accomplished, unless the restructuring provided for full amortization on or prior to maturity and the borrower strictly complied with that restructuring, a risk exists that upon maturity of such loans, replacement financing will not be available and such loans may not be repaid. In the event of the bankruptcy of a borrower, the loan to that borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), the lien securing the loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law, and realizing any value under such circumstances can be an expensive and lengthy process that could have a substantial negative effect on the anticipated return on the loan and on the security backed by such loan.

If defaulted loans are purchased by a Fund, it is possible that the Adviser may find it necessary or desirable to foreclose on collateral securing one or more investments in loans purchased by the Fund. The foreclosure process can be expensive and lengthy (which could have a substantial negative effect on a Fund's anticipated return on the foreclosed mortgage loan), and may be adversely affected by the operation of state law governing the foreclosure process as well as other creditor's rights provided in the governing loan instruments. Inadequate documentation of loans or assignments of loans and erroneous or incomplete record keeping with respect to loans that were formerly securitized in loan pools may impair the Adviser's ability to foreclose on collateral securing loans. Borrowers often resist foreclosure actions by asserting numerous claims, including lender liability claims, and may also file for bankruptcy at any time during the foreclosure process. The foreclosure process also tends to create a negative public image of the collateral property and may result in the disruption of ongoing leasing and management of the property. A Fund's involvement in the foreclosure process may also expose the Fund and/or its

affiliates to negative publicity, adverse public sentiment, regulatory scrutiny or legal disputes, which may adversely impact the Fund and its anticipated investment program.

Also, in recent years, a number of mortgage loan originators experienced serious financial difficulties or bankruptcy. The foregoing, as well as the resulting reduced investor demand for mortgage loans and mortgage-related securities and increased investor yield requirements, caused limited liquidity in the secondary market for mortgage-related securities, which can adversely affect the market value of mortgage-related securities. As a result, the performance of a Fund's mortgage loans and other investments backed by mortgage loans could be correspondingly adversely affected.

A number of local governments are considering or may consider using eminent domain to seize mortgage loans and forgive principal on the loans. Such seizures, if they are successful, could result in losses and write-downs relating to a Fund's mortgage loans and other investments backed by mortgage loans (i.e., MBS), and could increase a Fund's credit losses. These actions and others that state and local governments may pursue in the future could have an adverse effect on a Fund's business, results of operations, financial condition and net worth.

Risks Associated with Servicers

In addition to risks associated with attempting to predict default and recovery rates on mortgages that a Fund may acquire or to which it otherwise has exposure, the creditworthiness, servicing practices and viability of the servicers of such mortgages are also significant risks. The servicer may be required to make advances in respect of delinquent mortgage loans. However, servicers experiencing financial difficulties may not be able to perform these obligations. Servicers who have sought bankruptcy protection may, due to application of the provisions of bankruptcy law, not be required to advance such amounts. Even if a servicer were able to advance amounts in respect of delinquent mortgage loans, its obligation to make such advances may be limited to the extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgage loans. In addition, a servicer's obligation to make such advances may be limited to the amount of its servicing fee.

Illiquidity and unpredictability in these markets make it difficult to determine whether such servicers have sufficient capital and adequate staffing levels to fulfill their servicing obligations and the extent to which such servicers are subject to regulatory risks and risk of error. A number of originators and servicers of mortgage loans have in the past experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings. Such financial difficulties may have a negative effect on the ability of servicers to pursue collection on mortgage loans that are experiencing increased delinquencies and defaults and to maximize recoveries on sale of underlying properties following foreclosure.

A Fund may also be exposed to these and other risks to the extent it has a financial interest in a servicer or otherwise engages in servicing activities. While a Fund may utilize (or replace existing servicers with) affiliated servicers, there can be no assurance that any such affiliated servicer will be successful or will have a positive impact on the Fund's performance.

Violations of Various Federal, State and Local Laws May Result in Losses on Mortgage Loans

Violation of certain federal, state or local laws and regulations relating to the protection of consumers, unfair and deceptive practices and debt collection practices may limit the ability of a Fund, servicers and/or their affiliates to collect all or part of the principal of, or interest on, commercial mortgage loans and, in addition, could subject a Fund, servicers and/or their affiliates to damages and administrative enforcement.

Pools of Loans

In connection with the acquisition of whole or other loans, a Fund may be required to purchase other types of mortgage assets as part of an available pool of mortgage assets in order to acquire the desired loans. These other mortgage assets may include mortgage assets that subject a Fund to additional risks. Acquisition of less desirable mortgage assets may impair the performance of a Fund and reduce returns (if any) to investors.

Ownership of Real Estate

As a result of foreclosure on mortgage loans, a Fund may come to hold indirect interests in real estate that are substantially illiquid or that are declining in value, or both. The ownership of such real estate interests may have adverse tax consequences for certain investors in a Fund and the holding and disposition of such interests may involve additional costs to the Fund. Any real estate indirectly owned by a Fund will be subject to various risks, including: adverse changes in national and local economic and market conditions; changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances; costs of remediation and liabilities associated with environmental conditions; costs or losses associated with personal injury or other civil liability associated with the property; and the potential for uninsured or under-insured property losses. If any of these or similar events occur, it could significantly reduce a Fund's return from affected properties or investments.

Changes in Prepayment Rates

Changes in prepayment rates could reduce the value of mortgage loans directly held by a Fund or underlying a security held by a Fund.

Syndicated Investments

A Fund may originate certain investments and later syndicate a portion of one or more investments to other affiliated funds or third parties. Thus, a Fund's success will depend, in part, on the ability of the Adviser and the Fund to originate loans on advantageous terms. In originating and purchasing loans, a Fund competes with a broad spectrum of lenders, some of which may have greater financial resources than the Fund. Increased competition for, or a diminishment in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors in the Fund. The level of analytical sophistication, both financial and legal, necessary for successful financing to companies, particularly companies experiencing significant business and financial difficulties is unusually high. There is no

assurance that the Adviser will correctly evaluate the value of the assets collateralizing these loans or the prospects for successful repayment or a successful reorganization or similar action.

Litigation and Related Risks Associated with Origination and Servicing

Loan origination and servicing companies are routinely involved in legal proceedings concerning matters that arise in the ordinary course of their business. These legal proceedings range from actions involving a single plaintiff to class action lawsuits with potentially tens of thousands of class members. In addition, a number of participants in the loan origination and servicing industry (including control persons of industry participants) have been the subject of regulatory actions by state regulators, including state attorneys general, and by the federal government. Governmental investigations, examinations or regulatory actions, or private lawsuits, including purported class action lawsuits, may adversely affect such companies' financial results. To the extent a Fund seeks to engage in origination and/or servicing directly, or has a financial interest in, or is otherwise affiliated with, an origination or servicing company, the Fund will be subject to enhanced risks of litigation, regulatory actions and other proceedings. As a result, a Fund may be required to pay legal fees, settlement costs, damages, penalties or other charges, any or all of which could materially adversely affect the Fund and its investments.

Risk of Loss; Defaulting or Underperforming Assets

There can be no assurance that a Fund will achieve its investment objective or any particular level of returns. An investor may lose all of its money by investing in a Fund. Among other things, a Fund may invest in assets that are defaulting, underperforming or non-performing and/or in securities of issuers who are under financial stress. By their nature, such investments are considered speculative and entail substantial risks that are generally higher than the risks of investments in performing assets and securities of issuers that are not under financial stress. Investments in properties operating in workout modes or under Chapter 11 of the U.S. Bankruptcy Code are, in certain circumstances, subject to certain additional potential liabilities that may exceed the value of the original investment. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions.

Contingent Liabilities

A Fund may from time to time incur contingent liabilities in connection with an investment. There can be no assurance that a Fund will adequately reserve for its contingent liabilities and that such liabilities will not have an adverse effect on the Fund.

Investments in CLO Equity Interests

Certain Funds may invest in interests in the CLO Funds. The ability of the CLO Funds and the issuers of their portfolio assets to make distributions or pay dividends will depend on their respective operating results and will be subject to various limitations, including, among other things, laws limiting the amount of funds available for the payment of dividends or distributions, and the terms and covenants of any relevant outstanding indebtedness, contract or agreement. For example, tests (based on interest coverage or other financial ratios, delinquency levels or

other criteria) may restrict a Fund's ability, as holders a CLO Fund's equity interests, to receive cash flow from these investments. There is no assurance any such performance tests will be satisfied. Also, such vehicles may take actions that delay distributions in order to preserve ratings and to keep the cost of present and future financings lower. Consequently, there may be a lag, which could be significant, between the repayment or other realization on a loan or other assets in such a vehicle and the distribution of cash out of a CLO Fund, or cash flow may be completely restricted for the life of the CLO Fund. Creditors of such a vehicle will often receive current payments of principal and interest at times when the factors enumerated above preclude distributions to a Fund holding equity interests. In addition, a decline in the credit quality of a portfolio investment due to poor operating results of the relevant borrower or issuer, declines in the value of the collateral supporting such portfolio investment and increases in defaults, among other things, may force such vehicles to sell certain assets at a loss, reducing their earnings.

In some cases, relatively short-term credit facilities may be used to finance the acquisition of loans and other assets until a sufficient quantity of assets is accumulated, at which time the assets are refinanced through a portfolio level financing, such as a securitization. As a result, if a Fund were to invest in the financing vehicle during this period before a CLO Fund, the Fund may be subject to the risk that it will not be able to acquire, during the period that the short-term facilities are available, a sufficient amount of eligible assets for the purposes of a securitization. A Fund may provide guarantees in support of credit facilities used to acquire assets, and there can be no assurance that such guarantees will not have adverse consequences for a Fund.

The terms of the financing that the CLO Funds will enter into generally provide that the principal amount of assets must exceed the principal balance or market value of the related debt by a certain amount, commonly referred to as "over-collateralization." The financing terms may provide that, if certain delinquencies and/or losses exceed specified levels, the required level of over-collateralization may be increased or may be prevented from decreasing as would otherwise be permitted if losses or delinquencies did not exceed those levels. If assets held by a CLO Fund fail to perform as anticipated, their over-collateralization or other credit enhancement expenses may increase, resulting in a reduction in income and cash flow to the Funds. CLO Funds are subject to credit risks inherent in the underlying collateral and the risk of a servicer failing to perform.

The equity interests that a Fund may hold in a CLO Fund are not secured by the assets of such vehicles, and a Fund holding equity interests would rank behind all known or unknown creditors (which may include affiliates of the Adviser), whether secured or unsecured, of the CLO Funds. No person or entity other than the CLO Fund is required to make any distributions on the equity interests. Payments from a CLO Fund on its common or preferred shares or other equity interests are subordinate to payments on its debt. To the extent that any losses are incurred by the CLO Fund in respect of any collateral, such losses will be borne first by investors holding common or preferred shares or other equity interests.

Item 9. Disciplinary Information

This item is not applicable to the Adviser.

Item 10. Other Financial Industry Activities and Affiliations

Related General Partners and Directors

The Adviser organizes certain of the Funds, which may be limited partnerships for which the Adviser (including affiliates of Benefit Street) serves as general partner or exempted companies for which employees or affiliates of Benefit Street serve as members of the board of directors. For a description of material conflicts of interest created by these relationships, as well as a description of how such conflicts are addressed, please see Item 11 below.

Affiliated Advisers

Benefit Street is affiliated with the investment advisers listed below.

- Providence Equity LLP: organized in the United Kingdom and authorized to perform certain activities by the UK Financial Services Authority.
- Providence Equity Asia Limited: organized in Hong Kong and regulated by the Securities and Futures Commission of Hong Kong.
- Providence Equity Investment Consulting (Beijing) Co. Ltd.; organized in Beijing, China and registered with the Beijing Administration of Industry and Commerce.
- Providence Equity Advisors India Private Limited: organized in India.
- Providence Equity Partners L.L.C.: a U.S. registered investment adviser with the SEC.
- Providence Equity Capital Markets L.L.C.: a U.S. registered investment adviser with the SEC and a registered CPO with the CFTC and a member of the NFA.
- Merganser Capital Management, LLC: a U.S. registered investment adviser with the SEC.
- Providence Equity Advisors Mauritius Limited: organized in Mauritius and regulated by the Mauritius Financial Services Commission.
- Providence Equity L.L.C.: organized in New York and has filed a single Form ADV with Providence Equity Partners L.L.C. as a relying advisor.

Clients of the Adviser may from time to time participate in transactions alongside other clients of Benefit Street or clients of an affiliated adviser. Certain employees and management persons of the Adviser are also registered principals or associated persons of the Adviser and the Adviser's affiliate, Providence Equity Capital Markets L.L.C., in connection with the Adviser's and Providence Equity Capital Markets L.L.C.'s registration as CPOs and membership with the NFA.

For a description of material conflicts of interest created by the relationship among the Adviser and the affiliated advisers, as well as a description of how such conflicts are addressed, please see Item 11 below.

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

Code of Ethics

The Adviser's Code of Ethics requires each of the Adviser's employees to deal honestly and fairly with all persons with whom he or she has contact. The Code of Ethics is designed to comply with Rule 17j-1 of the Investment Company Act of 1940 and Rule 204A-1 of the Advisers Act. Employees at all times must place the interests of the Funds and their investors first. Employees are required to conduct their personal trading so as to avoid any actual or potential conflicts of interest or any abuse of a position of trust or responsibility. Moreover, employees may not take inappropriate advantage of their positions. The Code of Ethics includes policies regarding personal trading by the Adviser's employees and members of their immediate families. These policies limit personal trading by employees in a wide range of securities, including common and preferred stock, debt instruments, securities that are convertible or exchangeable for equity or debt securities, and derivative instruments. Employees must report every account that they use for the trading of securities covered by the policy and have copies of periodic account statements sent by their broker(s) to the Adviser's compliance department. In addition, if they directly or indirectly influence or control trading in the account, they must pre-clear covered securities transactions with the Adviser's compliance department. Trading by employees for their personal accounts is prohibited without pre-clearance by the Adviser's Chief Compliance Officer in his sole discretion.

A copy of the Code of Ethics is available to any client or prospective client upon request by calling Alexander H. McMillan at 212-588-6712 or by writing to Mr. McMillan, Chief Compliance Officer, Benefit Street Partners L.L.C., 9 West 57th Street, Suite 4700, New York, New York 10019.

Valuation of Fund Assets

The Adviser has a duty to value the Funds as provided in and consistent with the organizational documents and policies and procedures of those Funds as applicable. The Adviser has adopted a policy regarding the valuation of Fund assets in order to provide a basis for establishing valuations reported by Funds. The Funds may have portfolio investments that include restricted securities in publicly held companies and privately held investments, which are carried at an estimate of fair value as determined in good faith and in accordance with the organizational documents of the applicable Fund. In the absence of special circumstances, all portfolio investments, other than restricted and privately held portfolio investments, are valued at market value. Market value for unrestricted, publicly traded portfolio investments is determined based on the closing price on the exchange on which the security is principally traded. Restricted and privately held portfolio investments, which may not have readily ascertainable market values, are valued at fair value, which is the estimated amount that would be received to sell the portfolio investment in an orderly transaction between market participants on the measurement date. In establishing the fair value of portfolio securities, the Adviser or applicable general partner takes into consideration, for each portfolio company, some or all of the following: (a) the prices of securities of comparable quality and type; (b) the liquidity of the position; (c) any correlation with general market indicators, such as indices; (d) transactions in similar securities; (e) a

significant event occurs after either a security's last trade or the close of regular trading on the market where that security trades and before the portfolio's valuation time; (f) the nature and duration of restrictions on the disposition of securities (if applicable); (g) an evaluation of the forces which influence the market in which these securities may be purchased or sold and (f) any other specific factors which may affect pricing. The Adviser also considers the application of control premiums in various situations. However, because of the inherent uncertainty of valuation, the recommended values may differ significantly from values that would have been used had a ready market for the restricted and privately held portfolio investments existed, and may differ significantly from the amounts realized upon disposition, and the differences could be material. Notwithstanding the foregoing, valuations for a particular Fund will comply with the requirements of the relevant Fund's organizational documents.

The Adviser may modify the valuation methods described above if he determines that such modifications are appropriate and reasonable to reflect the value of any securities or other assets or liabilities, and will document the basis for any modifications.

With respect to the Sub-Advised Funds, the Adviser will generally coordinate with those Funds' investment advisers and value the Funds' assets to the extent required by and in accordance with those Funds' policies and procedures.

Participation or Interest in Client Transactions

The Adviser, its affiliates, certain of its principals and employees, and their family members and related vehicles may invest in and alongside certain of the Funds, and in one or more classes of CLO securities and additional subordinated notes issued by the CLO Funds, either through a general partner of a Fund, as direct investors in a Fund or otherwise. Management fees and Incentive Allocation assessed on such investments may be substantially reduced or waived entirely by the Adviser, a Fund or its general partner, as applicable. For further details regarding these arrangements, as well as conflicts of interest presented by them, please see "Conflicts of Interest" immediately below.

Investor Due Diligence Information

Due in part to the fact that potential investors in a Fund (including a potential purchaser of an interest in a secondary transaction) may ask different questions and request different information, the Adviser may provide certain information to one or more prospective investors that it does not provide to all of the prospective or current investors of the Fund. In addition, certain investors in the Funds may also be strategic investors directly or indirectly into the Adviser, which may result in such investors receiving greater or different information regarding the Adviser.

Conflicts of Interest

The Adviser and its affiliates engage in a broad range of activities, including investment activities for their own account and for the account of the Funds and other clients. In the ordinary course of conducting its activities, the interests of a Fund may conflict with the interests of the Adviser, other Funds or their respective affiliates. Certain of these conflicts of interest, as well as a description of how the Adviser addresses such conflicts of interest, can be found below. The discussion below does not describe all conflicts that may arise.

Resolution of Conflicts

In the case of all conflicts of interest, the Adviser's determination as to which factors are relevant, and the resolution of such conflicts, will be made using the Adviser's best judgment, in its sole discretion. In resolving conflicts, the Adviser may consider various factors, including the interests of the applicable Funds with respect to the immediate issue and/or with respect to their longer term courses of dealing. Certain procedures for resolving specific conflicts of interest are set forth below. When conflicts arise, the following factors may mitigate, but will not eliminate, conflicts of interest:

- (1) A Fund will not make an investment unless the Adviser believes that such investment is an appropriate investment considered solely from the viewpoint of the applicable Fund.
- (2) Conflicts of interest will generally be resolved by set procedures contained in the relevant offering and organizational documents of a Fund, if applicable.
- (3) The Adviser and certain of its affiliates have adopted written policies establishing information "walls" designed to limit communication between business units investing in equity securities and debt securities of companies. These policies restrict the transfer of confidential information between these business units, subject to certain exceptions provided in the policies. These policies establish procedures for communications among employees of different business units to guard against unlawful and inappropriate disclosure of material, nonpublic information.
- (4) On any issue involving actual conflicts of interest, the Adviser will be guided by its good faith judgment.

Potential Conflicts

The potential material conflicts of interest encountered by a Fund include those discussed below, although the discussion below does not necessarily describe all of the conflicts that may be faced by a Fund. Other conflicts may be disclosed throughout this brochure and the brochure should be read in its entirety for other conflicts.

Principal Transactions

Section 206 of the Advisers Act regulates principal transactions among an investment adviser and its affiliates, on the one hand, and its clients, on the other hand. Very generally, if an adviser (or an affiliate) purchases a security from or sells a security to a client, the adviser must disclose the terms of the transaction to the client and obtain the consent of the client prior to engaging in the principal transaction. In connection with the Adviser's management of certain of the Funds, and to the extent permitted by law and the Adviser's or an applicable Fund's compliance policies and procedures, the Adviser and its affiliates may engage in principal transactions. The Adviser has established certain policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions, including that disclosures required by Section 206 be made to the applicable Fund regarding any proposed principal transactions and that any required prior consent is received before executing a principal transaction.

Cross Transactions

A cross transaction generally refers to a transaction where one client account managed by the Adviser or its affiliates seeks to acquire an investment that another client account of the Adviser seeks to sell. Cross transactions may create conflicts of interest because a Fund is on both sides of the transaction. The Adviser may on occasion, and to the extent permitted by applicable law and the Adviser's or an applicable Fund's compliance policies and procedures, purchase a security or securities for one Fund at the same time as a sale of the same security or securities for another Fund or may effect cross transactions between Funds. Such transactions may, for example, be effected to rebalance the positions held by the Funds with a view towards achieving uniform results among certain clients in light of differing cash flows due to subscriptions and redemptions. The valuation of investments transferred between Funds involves inherent conflicts of interest. Such transactions in publicly traded securities generally will be effected at the last sales price at the end or the first sales price at the beginning of the trading day through one or more broker-dealers, and in accordance with the Funds' organizational documents, if applicable.

Conflicts Related to Purchases and Sales

The Adviser, its affiliates, and officers, principals or employees of the Adviser and its affiliates may buy or sell securities or other instruments that the Adviser has recommended to clients. In addition, such officers, principals or employees may buy securities in transactions offered to but rejected by clients. Such transactions are subject to the policies and procedures set forth in the Adviser's Code of Ethics. The investment policies, fee arrangements, and other circumstances of these investments may vary from those of the Adviser's clients. The Adviser, its affiliates, certain of its principals and employees, and their relatives may invest in and alongside the Funds, either through a general partner of a Fund, as direct investors in a Fund or otherwise, and therefore may have additional conflicting interests in connection with these investments. The Adviser, its affiliates, and their employees are prohibited from "front running" (i.e., purchasing a security for a personal account while knowing that a Fund is about to purchase the same security, and then selling the security at a profit upon the rise in the market price following the purchase by the Fund). They are similarly prohibited from engaging in short selling when they have access to confidential information that a Fund is about to sell a particular security. In addition, they are prohibited from "intermarket front running" (e.g., trading in an option for a personal account when a Fund is trading in the underlying security and vice versa).

A particular investment may be bought or sold for only one Fund or in different amounts and at different times for one (or more than one) Fund, even though it could have been bought or sold for other Funds at the same time. Likewise, a particular investment may be bought for one or more Funds when one or more other Funds are selling the investment. Conflicts also may arise when a Fund makes investments in conjunction with an investment being made by other Funds or a client of the Adviser's affiliate, or in a transaction where another Fund or client of such an affiliate has already made an investment. Investment opportunities may be appropriate for Funds and/or clients of the Adviser's affiliate at the same time, at different or overlapping levels of a portfolio company's capital structure. Conflicts may arise in determining the terms of investments, particularly where these clients may invest in different types of securities in a single portfolio company. Questions may arise as to whether payment obligations and covenants

should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work out or restructuring may raise conflicts of interest, particularly in Funds and clients of the Adviser's affiliates that have invested in different securities within the same portfolio company.

Certain clients of the Adviser and its affiliates may invest in bank debt, loans and securities of or other investments in companies in which other clients of the Adviser or its affiliates hold securities, loans or other investments, including equity securities, which may include a controlling position. In the event that such investments are made by a Fund, the interests of such Fund may be in conflict with the interest of such other Fund or client of the Adviser's affiliates, particularly in circumstances where the underlying company is facing financial distress. The involvement of such persons at both the equity and debt levels, or in different levels of the debt structure of an issuer, could cause conflicts of interest. In certain circumstances, decisions made with respect to investments held by one Fund or client of the Adviser's affiliates could adversely affect the investments of a Fund or other client of the Adviser's affiliates. The involvement of such persons at multiple levels of the capital structure could also inhibit strategic information exchanges among fellow creditors. In certain circumstances, Funds or the clients of the Adviser's affiliates may be prohibited from exercising voting or other rights, and may be subject to claims by other creditors with respect to the subordination of their interest. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, the Funds may or may not provide such additional capital, and if provided each Fund will supply such additional capital in such amounts, if any, as determined by the Adviser. The Adviser and its affiliates may seek to address these conflicts by adopting policies and procedures designed to ensure that the team managing the investments make independent decisions through the enforcement of information barriers and similar procedures.

Investments by more than one client of the Adviser or its affiliates in a portfolio company may also raise the risk of using assets of a client of the Adviser or its affiliates to support positions taken by other clients of the Adviser or its affiliates. The Adviser and its affiliates will attempt to resolve any such conflicts in good faith, but there can be no assurance that such conflicts of interest or actions taken by the Adviser or its affiliates in respect of other Funds will not have an adverse effect on the investments made by a Fund. There can be no assurance that the return of a Fund participating in a transaction would be equal to and not less than another Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed. Conflicts of interest related to investments by other Funds or funds managed by the Adviser's affiliates may result in a Fund limiting its participation in certain attractive investment opportunities.

Allocations

Each Fund may pursue investment opportunities similar to those pursued by another Fund or by clients of the Adviser's affiliates. The allocation of investment opportunities will be determined by the Adviser and its affiliates in their good faith judgment and in accordance with the organizational documents and/or policies and procedures of the relevant Funds. Allocation decisions can raise conflicts, for example, if the Funds and clients have different fee structures.

Subject to applicable investment objectives and guidelines, the Adviser and its affiliates generally allocate investment opportunities on a pro-rata basis among eligible Funds and clients based upon the current available capital of each such investment vehicle. With respect to the Funds, current available capital may include, in the Adviser's discretion, available leverage, unsettled trades, unfunded commitments, and uncalled capital. In addition, certain investment opportunities are allocated using certain factors such as risk factors and/or diversification, Fund investment restrictions, currency or other exposures, current portfolio composition (including current cash available), whether the Fund has an existing investment in the portfolio company, as well as the Fund's phase in its life cycle (for example, certain opportunities may be over-allocated or under-allocated to a Fund during the beginning or the end of its investment cycle) and other factors.

Any intra-Fund allocations will be done in accordance with the organizational documents for such entities, and these allocations are generally expected to be made on a pro rata basis.

The appropriate allocation between Funds of expenses and fees generated in the course of evaluating and making investments which are not consummated, such as out-of-pocket fees associated with due diligence, attorney fees and the fees of other professionals, will be determined by the Adviser and its affiliates in their good faith judgment.

Management of the Funds

The Adviser may establish one or more additional investment funds with investment objectives substantially similar to, or different from, those of the current Funds. Allocation of available investment opportunities between the Funds and any such investment fund could give rise to conflicts of interest. See "Allocations" above. In addition, it is expected that employees of the Adviser responsible for managing a particular Fund will have responsibilities with respect to other Funds and funds managed by the Adviser's affiliates, including funds that may be established in the future. Conflicts of interest may arise in allocating time, services or functions of these employees between funds.

Follow-on Investments

An additional investment made by a Fund in an existing portfolio company may present conflicts of interest, including the terms of any new financing as well as the allocation of the investment opportunities in the case of follow-on investments by one Fund in a portfolio company in which another Fund or client of the Adviser's affiliate has previously invested. In addition, a Fund may participate in leveraging and recapitalization transactions involving a portfolio company in which another Fund or client of the Adviser's affiliate has already invested or will invest. Conflicts of interest may arise, including determinations of whether existing investors are being cashed out at a price that is higher or lower than market value and whether new investors are paying too high or too low a price for the company or purchasing securities with terms that are more or less favorable than the prevailing market terms.

Related Services

Certain affiliates of the Adviser may perform Related Services for, and receive fees from, actual or prospective portfolio companies, other investment vehicles of the Funds, or the Funds. Such

fees will be in addition to the management fee and Incentive Allocation paid by such Fund to the Adviser. These fees may create a conflict of interest because the amounts of these fees may be substantial and the Funds and their investors may not have an interest in these fees. In many cases, with respect to the implementation of such arrangements, there is not an independent third-party involved on behalf of the relevant portfolio company. Therefore, a conflict of interest may exist in the determination of any such fees and other related terms in the applicable agreement with the portfolio company. Please see Item 5 “Fees and Compensation” for additional information regarding Related Services fees.

Diverse Membership

The investors in the Funds include U.S. taxable and tax-exempt entities, and institutions from jurisdictions outside of the United States. Such investors may have conflicting investment, tax and other interests with respect to their investments in a Fund. The conflicting interests among the investors may relate to or arise from, among other things, the nature of investments made by a Fund, the structuring of the acquisition of investments and the timing of the disposition of investments, as well as the structure of a Fund and its associated parallel funds. As a consequence, conflicts of interest may arise in connection with decisions made by the Adviser, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors’ individual tax situations. In selecting and structuring investments appropriate for a Fund, the Adviser will consider the investment and tax objectives of the applicable Fund and the investors as a whole, not the investment, tax or other objectives of any investor individually.

Side Letter Agreements

The Adviser may enter into certain side letter arrangements with investors in a Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures, information rights, and liquidity or transfer rights.

Advisory Affiliates

Benefit Street is affiliated with Providence Equity Partners L.L.C., Providence Equity Capital Markets L.L.C. and Merganser Capital Management, LLC, each an investment adviser registered with the SEC, and Providence Equity Capital Markets L.L.C is registered with the CFTC and is a member of the NFA. Providence Equity Partners L.L.C., Providence Equity Capital Markets L.L.C. and Merganser Capital Management, LLC primarily focus on investments in companies operating in the media, entertainment, communications, education and information services industries. However, clients of Benefit Street, Providence Equity Partners L.L.C., Providence Equity Capital Markets L.L.C. and Merganser Capital Management, LLC may invest in the same portfolio companies, including in the same security or in different securities of such a portfolio company. In the ordinary course of conducting its activities, interests of Benefit Street’s clients may therefore conflict with the interests of Providence Equity Partners L.L.C.’s, Providence Equity Capital Markets L.L.C.’s and Merganser Capital Management, LLC’s clients. Please see the Adviser’s response in the sections entitled “Conflicts Related to Purchases and Sales” and “Allocations” above for more information. The other investment adviser affiliates of the Adviser do not have their own clients.

Conflicts Relating to the Related Persons and the Adviser

The Adviser generally may, in its discretion, contract with any related person of the Adviser to perform services for the Adviser in connection with its provision of services to the Funds. When engaging a related person to provide such services, the Adviser may have an incentive to recommend the related person even if another person may be more qualified to provide the applicable services and/or can provide such services at a lesser cost.

The Adviser generally may, in its discretion, recommend to a Fund that it contract for services with (i) a related person of the Adviser or (ii) an entity with which the Adviser or its affiliates or a member of their personnel has a relationship or from which the Adviser or its affiliates or a member of their personnel otherwise derives financial or other benefit. When making such a recommendation, the Adviser may, because of its financial or other business interest, have an incentive to recommend the related or other person even if another person is more qualified to provide the applicable services and/or can provide such services at a lesser cost.

Conflicts Related to Fee Structure

Because the Funds' management fee may be based upon the value of investor's capital accounts or net asset value, to the extent that the valuation of such assets is determined or influenced by the Adviser or its affiliates, this may create a conflict of interest.

The fact that the Incentive Allocation received by the Adviser or its affiliates from the Funds is based on the performance of the Funds may also create an incentive for the Adviser to cause the Funds to make investments that are more speculative than would be the case in the absence of performance-based compensation. However, this incentive may be tempered somewhat by loss carry forward provisions with respect to the Adviser's receipt of Incentive Allocation.

Other Conflicts

The Adviser, its affiliates and the Funds may engage common legal counsel and other advisers in a particular transaction, including transactions in which there may be conflicts of interest. Members of the law firms engaged to represent the Funds may be investors in a Fund or other funds managed by the Adviser's affiliates and may also represent one or more portfolio companies or investors in a Fund or fund managed by the Adviser's affiliates. In the event of a significant dispute or divergence of interest between Funds and the Adviser and/or its affiliates, the parties may engage separate counsel in the sole discretion of the Adviser and its affiliates. Moreover, in litigation and certain other circumstances separate representation may be required.

The Adviser may, in its discretion, have, and may, in its discretion, cause the Funds to have, ongoing business dealings, arrangements or agreements with persons who are former employees or executives of the Adviser or the Adviser's affiliates. The Funds may bear, directly or indirectly, the costs of such dealings, arrangements or agreements. In such circumstances, there may be a conflict of interest between the Adviser and the Funds in determining whether to engage in or to continue such dealings, arrangements or agreements, including the possibility that the Adviser may favor the engagement or continued engagement of such persons even if a better price and/or quality of service could be obtained from another person.

If a Fund purchases in the secondary market at a discount debt securities of a company in which a Fund has, for example, a substantial equity interest, (a) a court might require a Fund to disgorge profit it realizes if the opportunity to purchase such securities at a discount should have been made available to the issuer of such securities or (b) a Fund might be prevented from enforcing such securities at their full face value if the issuer of such securities becomes bankrupt.

The effect of these transactions will vary from jurisdiction to jurisdiction.

Item 12. Brokerage Practices

Although the Funds primarily invest in debt instruments, the Funds may from time to time invest in equity securities. The Adviser generally has discretion to determine the broker or dealer to be used and the commission rates to be paid in instances where a broker or dealer is used. When executing transactions on behalf of the Funds through a broker, dealer or underwriter, the Adviser's objective will be to obtain the most favorable commission and the best price obtainable on each transaction in light of the quality of execution provided. As such, brokers, dealers and underwriters are selected primarily on the basis of their execution, capability and trading expertise. Certain brokers and dealers utilized by the Adviser make research information available to the Adviser. However, the Adviser does not enter into soft dollar arrangements or otherwise take into account research and non-execution services in selecting brokers to execute client transactions.

In order to monitor best execution, the Adviser, as well as the Adviser's compliance group, will periodically monitor broker-dealers to assess the quality of execution of brokerage transactions effected on behalf of the Adviser and each Fund.

Aggregation of Trades

The Adviser may, subject to applicable law and the Adviser's or an applicable Fund's compliance policies and procedures, aggregate (or bunch) the orders of more than one Fund for the purchase or sale of the same security. Portfolio managers and traders often employ this practice because larger transactions can enable them to obtain better overall prices, including lower commission costs or mark-ups or mark-downs. The Adviser may combine orders on behalf of Funds with orders for other funds for which it or its affiliates have trading authority, or in which it or its affiliates have an economic interest. In such cases, the Adviser and its affiliates generally allocate the securities or proceeds arising out of those transactions (and the related transaction expenses) on an average price basis among the various participants.

When orders for securities are not entirely filled, allocation shall be made based upon the Adviser's procedures for allocation of investment opportunities. Where aggregate trades have been filled during the course of the trading day at different prices, the costs of the securities to each client will be averaged priced to the extent possible. See the Adviser's response to Item 11 above for more information regarding conflicts of interest related to investment and trading discretion.

Item 13. Review of Accounts

After an investment is made, the Adviser regularly monitors each position and continually optimizes the portfolio based on changes in market conditions and underlying company fundamentals. Ongoing, collaborative industry and sector reviews are conducted by the Adviser. In addition, the Adviser keeps in regular contact with the company and the Adviser actively monitors price movements for each position held.

Reporting may differ for each Fund and investors in a Fund should confirm which reports they will receive. The Adviser typically provides written unaudited reports and letters to the investors in the Fund on a regular basis. In addition, the Adviser generally provides annual audited reports to the investors in the Funds.

Item 14. Client Referrals and Other Compensation

For details regarding economic benefits provided to the Adviser by non-clients, including a description of related material conflicts of interest and how they are addressed, please see Item 11 above.

Certain affiliates of the Adviser may also provide Related Services to actual or prospective portfolio companies, other investment vehicles of the Funds, or the Funds. Such Related Services are complementary to the investment advisory services provided by the Adviser. Time spent on Related Services varies from investment to investment.

While not a client solicitation arrangement, the Adviser notes that it may from time to time engage one or more persons to act as a placement agent for a Fund in connection with the offer and sale of interests to certain prospective investors. Such persons generally will receive a fee in an amount equal to a percentage of the capital commitments for interests in a Fund that are accepted by the Fund's general partner or board of directors with respect to such prospective investors. Such fees will be negotiated individually between the Adviser and such person.

Item 15. Custody

This item is not applicable to the Adviser.

Item 16. Investment Discretion

The Adviser generally has the discretion to determine, without consent of the Funds or the investors in the Funds, the particular securities or instruments to be bought and sold in accordance with the terms and conditions of the applicable organizational documents of and investment advisory or sub-advisory agreement with each Fund and, with respect to the 1940 Act Funds, in accordance with the Funds' investment policies and restrictions, as provided for from time to time in such Funds' prospectuses and SAIs. The Adviser will provide investment advice to the Funds, subject to certain limitations and restrictions on the Funds as to diversification and type of permitted investments. Funds will typically make direct investments in companies, although the Adviser may in its discretion form a special purpose vehicle with respect to particular investments.

Item 17. Voting Client Securities

As the Funds primarily invest in debt instruments, the Adviser does not normally receive proxies to vote common stock. However, the Adviser has adopted the following proxy voting policies and procedures to address the instances where voting is required.

Where authority to vote proxies has been delegated to the Adviser, it is the Adviser's fiduciary duty to vote proxies and consents in the best interests of the Funds and the overriding principle of the Adviser's proxy voting is to maximize the financial interests of the Funds. It is the policy of the Adviser in voting proxies to consider and vote each proposal with the objective of maximizing long-term investment returns for the Funds.

The Adviser has established guidelines regarding the voting of proxies on routine, non-routine, corporate governance and social issues. The Adviser may, however, vote in a manner that is contrary to the general guidelines if it believes that it would be in a Fund's best interest to do so.

All proxies, unless voted in accordance with the Adviser's general guidelines on routine, non-routine, corporate governance and social issues, will require a mandatory conflicts of interest review, which will include consideration of whether the Adviser, any investment professional or other person recommending how to vote and/or the Adviser's affiliates and their clients has an interest in how the proxy is voted that may present a conflict of interest. The Adviser is not required to vote a proxy if the cost of voting a particular proxy due to special translation, delivery or other requirements would outweigh the benefit of voting for the Fund. Though not common, situations may arise in which more than one Fund invests in the same company or in which a single Fund may invest in the same company but through multiple accounts. In those situations, two or more Funds, or one Fund with different accounts, may be invested in strategies having different investment objectives, investment styles or portfolio managers. As a result, the Adviser may cast different votes on behalf of different Funds or on behalf of the same Fund with different accounts.

The Adviser will retain all books and records relating to its proxy voting activities on behalf of client accounts in accordance with the requirements of Rule 204-2(c)(2) under the Advisers Act. Copies of relevant proxy logs are available to any client or prospective client by calling Mr. McMillan at 212-588-6712 or by writing to Mr. McMillan, Chief Compliance Officer, Benefit Street Partners L.L.C., 9 West 57th Street, Suite 4700, New York, New York 10019.

Item 18. Financial Information

This item is not applicable to the Adviser.

Item 19. Requirements for State-Registered Advisers

This item is not applicable to the Adviser.