

Benefit Street Partners L.L.C.

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Part 2A of Form ADV: Firm Brochure
March 31, 2017

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 March 31, 2017 serves as an update to the Adviser's (as defined in Item 4) brochure dated March 30, 2016. While there have been no material changes to this brochure, we have made certain routine updates, including updating (a) the discussion of the advisory business in Item 4, (b) the discussion of expenses in Item 5, (c) the risks associated with an investment in a Fund (as defined in Item 4) in Item 8 and (d) the discussion of conflicts in Item 11.

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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 generally possess substantially similar personnel and/or equity owners with Benefit Street. These affiliates are formed for tax, regulatory or other purposes in connection with the organization of the Funds, or serve as general partners of the Funds.

Background

Benefit Street is an investment management platform 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 primarily doing business in the media, entertainment, communications, education and information services industries, formed Benefit Street in 2011.

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

Benefit Street is a registered commodity pool operator (“CPO”) and Commodity Trading Adviser (“CTA”) 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 CPO and/or CTA.

Services

The Adviser provides investment advisory services to investment vehicles, including private funds that are not registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”), and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”), to certain collateralized loan obligation vehicles (“CLO Funds”), to a non-publicly traded real estate investment trust (the “REIT”) whose securities are registered under the Securities Act and which has elected to be treated as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”), and to certain separate account clients, single-investor funds and tailored funds. The Adviser also provides sub-advisory services to a business development company, certain registered investment companies (the “Sub-Advised Registered Funds” and, together with the business development company, the “1940 Act Funds”), to certain other collective investment vehicles (collectively with the 1940 Act Funds, the “Sub-Advised Funds”). Collectively, the funds, vehicles and account arrangements discussed in this paragraph may be referred to herein, as the context permits, as the “Main Funds”).

The Adviser may, from time to time, establish Funds on a transaction-by-transaction basis to allow certain persons to invest alongside one or more Main Funds in a particular investment

opportunity (each such vehicle, a “Co-Investment Fund”). Co-Investment Funds are typically limited to investing in securities relating to the transaction or transactions with respect to which they were organized. As a general matter, any co-investment by a Co-Investment Fund will be on terms and conditions not more favorable than the terms and conditions of the investment by the applicable Main Fund.

Additionally, the Adviser also organizes and serves as the general partner (or in an analogous capacity) of certain other Funds which are “feeder” vehicles (each, a “Feeder Fund”) organized to invest exclusively in another Fund, and/or alternative investment vehicles (each, an “Alternative Investment Vehicle”) organized to address, for example, specific tax, legal, business, accounting or regulatory-related matters that arise in connection with a transaction or transactions.

The Main Funds, Feeder Funds and Alternative Investment Vehicles are collectively referred to, as the context permits, as the “Funds.”

Certain of the Funds primarily make investments in debt instruments across various market sectors. A number of Funds also invest from time to time in equity securities, certain types of instruments which can 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. Subject to the terms of the applicable advisory or sub-advisory agreement, the Adviser’s advisory services include 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 serves 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 or Sub-Advised Funds, investment advice is generally provided directly to the Funds and not individually to investors. Services are provided to the Funds in accordance with an advisory agreement with each of 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.

The Adviser also provides investment advice to certain clients on a non-discretionary basis. Those services include securities analysis, asset allocation advice, portfolio risk analysis and specific investment recommendations.

As of December 31, 2016, the Adviser manages \$11,828,820,066 of client assets on a discretionary basis and \$11,992,998 of client assets on a non-discretionary basis.

Item 5. Fees and Compensation

The Adviser or its affiliates generally receive management fees or a sub-advisory fee (collectively “Advisory Fees”) and, in certain cases, an Incentive Allocation (as defined below)

or similar performance-based remuneration from each Main Fund. A Main Fund, and/or its portfolio companies may also make other payments to the Adviser or its affiliates for services provided to the portfolio companies which, in certain circumstances, may reduce the Advisory Fees payable to the Adviser. Additionally, consistent with the organizational documents of a Fund, the Fund typically bears certain out-of-pocket expenses incurred by the Adviser in connection with the services provided to the Fund and/or the portfolio companies. Further details about certain common fees and expenses are set forth below.

Management Fees

In respect of each Main Fund, the Adviser is typically paid a quarterly or monthly management fee or sub-advisory fee, which is paid either in advance or in arrears, in accordance with each such Main Fund's organizational documents or the applicable sub-advisory agreement, by such Main Fund. Advisory Fees paid by a Main Fund may also be reduced by other fees or compensation received by the Adviser or its affiliates that relate to such Main Fund's activities and investments, or by certain organization or other expenses borne by such Main Fund, as described in more detail below.

Consistent with the organizational documents or advisory agreements for each of the Main Funds, management fees paid by the Main Funds are either deducted from capital accounts or billed and, in either case, are generally indirectly borne by investors in the Main Funds, including any Feeder Funds that invest in such Main Funds. The Adviser does not receive a separate management fee directly from such Feeder Funds if the fee is borne directly by the corresponding Main 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 are generally 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. Such management fees are subject to waiver or reduction by the Adviser for certain of the Funds. 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 are typically 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.

Except as otherwise set forth in the organizational documents of a Fund, the management fees paid by a Fund will generally be reduced by a percentage of: (1) the amount of fees paid by such Fund to persons acting as a placement agent in connection with the offer and sale of interests in such Fund to certain potential investors, (2) the fees incurred by the Adviser in connection with the organization of such Fund that exceeds a limit specified in such Fund's organizational documents and/or (3) certain Other Fees (as defined below) received by the Adviser or its affiliates. The amount and manner of such reduction, if any, is set forth in the

advisory agreement and/or organizational documents of the applicable Fund. To the extent that an Other Fee relates to more than one Fund, the Adviser will generally allocate the resulting management fee reduction among the applicable Fund(s) in proportion to their interest (or prospective interest) in the portfolio company. As some Funds do not pay management fees, any such reduction will not benefit such Funds. Generally, the portion of Other Fees allocable to capital invested by a Fund, co-investment vehicle or third-party investor that does not pay management fees will be retained by the Adviser and such amounts will not offset any management 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, or, in the case of a Sub-Advised Fund, the Sub-Advised Fund's adviser, will ultimately bear all fees and out-of-pocket expenses of any placement agent that solicits investors for the Funds. Such Funds will generally 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 any such amount specified are typically ultimately borne by the Adviser or, in the case of a Sub-Advised Fund, the Sub-Advised Fund's 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, administrative, custodial, recordkeeping and third-party consulting fees for services rendered to or for the benefit of the Fund (including, but not limited to, all fees, costs and expenses incurred in registering the Fund for marketing in any jurisdiction (including ongoing registration fees charged by regulators and any fees, costs and expenses incurred in complying with the disclosure reporting and other similar obligations under the Alternative Investment Fund Managers Directive, as implemented in any relevant jurisdiction (and including any secondary legislation, rules and/or associated guidance) and any related requirements), costs relating to maintaining and producing the books and records of the Fund, and any risk management assessment expenses), fees, costs and expenses charged by a Fund's administrator, custodian and/or prime broker; and reporting and other out-of-pocket costs relating to a Fund's operations, activities, investments or business; (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 (including, but not limited to, research and due diligence fees and expenses; consultant or expert fees and expenses for sourcing, researching, conducting due diligence, etc., for investment opportunities; news and quotation subscriptions; market or industry research expenses; information technology subscription expenses; bridge financing expenses and travel expenses in connection with making, monitoring and disposing of investments and for the Adviser's personnel to attend industry conferences (which, in each case, may be first class or chartered aircraft in accordance with the Adviser's policies)); and (iii) other operating and extraordinary expenses of the Fund (including, but not limited to, brokerage fees and commissions; registration, bank service fees and similar expenses incurred by a Fund; rating agency expenses; financing, investment banking

and valuation expenses (including expenses of engaging valuation agents); filing fees, litigation costs (including potential litigation), indemnification costs and expenses, judgments and settlements; taxes, fees or other governmental charges (if any) required to be paid or withheld by a Fund; indemnity or insurance policies (including directors and officers insurance and errors and omissions insurance for the Adviser and its affiliates); any expenses of liquidating a Fund; fees and expenses of any Fund advisory committee; expenses incurred in connection with meetings of the investors in a Fund; and expenses incurred in connection with any tax audit, investigation, settlement or review of a Fund).

Certain Funds may invest in mutual funds, exchange traded funds (“ETFs”) or other pooled investment vehicles that include an embedded expense ratio composed of an investment management fee and/or carried interest paid to the investment adviser or general partner, as applicable, of the mutual fund, ETF or other pooled investment vehicle and other administrative and operating expenses. As such, Funds with investments in mutual funds, ETFs or other pooled investment vehicles will be subject to the fees and expenses of these underlying vehicles as well as the other types of expenses and fees described herein, including the Adviser’s management fee.

Consistent with the organizational documents or advisory and/or sub-advisory agreements for the applicable Funds, CLO Funds, separate account clients, single-investor funds, tailored funds, Sub-Advised Funds and 1940 Act Funds generally bear similar expenses and, in the case of the 1940 Act Funds, generally will also bear, among other expenses, transfer agency and distribution related expenses.

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. As set forth in their organizational documents, certain Funds also bear an allocable portion of the compensation (including salary, bonus and benefits), expenses and overhead attributable to certain employees of the Adviser and its affiliates, including the originations, underwriting, trading, and securitization teams; in-house accountants, operations personnel, legal, tax and compliance; and other professionals whose functions may also include the preparation of financial statements, investor reports, tax returns, the administration of assets and expenses of the Funds (including co-investment vehicles and feeder funds) and legal and regulatory compliance with applicable laws and regulations.

From time to time, the general partner of a Fund may create certain “special purpose vehicles” or similar structuring vehicles for purposes of accommodating certain tax, legal and regulatory considerations of investors (“SPVs”). In the event the general partner creates an SPV, consistent with the organizational documents of the Fund, the SPV, and indirectly, the investors in such SPV, will typically bear all expenses related to its organization and formation and other expenses incurred solely for the benefit of the SPV.

In certain cases, a co-investment vehicle, or other similar vehicle established to facilitate the investment by investors to invest alongside a Fund may be formed in connection with the consummation of a transaction. In the event a co-investment vehicle is created, the investors in such co-investment vehicle will typically bear all expenses related to its organization and

formation and other expenses incurred solely for the benefit of the co-investment vehicle. The co-investment vehicle will generally bear its pro rata portion of expenses incurred in the making an investment. If a proposed transaction is not consummated, no such co-investment vehicle generally will have been formed, and the full amount of any expenses relating to such proposed but not consummated transaction (“Dead Deal Costs”) would therefore be borne by the Fund or Funds selected by the Adviser as proposed investors for such proposed transaction. As a general matter, no co-investor will bear Dead Deal Costs or break-up fees until they are contractually committed to invest in the prospective investment.

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 other fees in addition to the Management Fee, including commitment fees, break-up fees, directors’ fees, consulting fees, incentive fees or discounts from service providers and similar fees relating to the investments made by a Fund and/or to monitoring, 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, including fees in connection with structuring investments in such portfolio companies, as well as mergers, acquisitions, add-on acquisitions, refinancings, public offerings, sales or other dispositions and similar transactions with respect to such portfolio companies (“Other Fees”). Such Other Fees will generally, for purposes of calculating any management fee offset, 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 certain 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 may provide loan servicing, administrative and other services with respect to debt issued by portfolio companies of a Fund and receive servicing fees, special servicing fees and other similar fees and payments for such services which are not subject to the management fee reduction arrangement described above.

The payment of Other Fees by portfolio companies creates a conflict of interest between the Adviser and its affiliates and the Funds and their investors because the amounts of these Other Fees and reimbursements are often substantial and the Funds and their investors generally do not have a direct interest in these fees and reimbursements. The Adviser determines the amount of these fees for the services provided and reimbursements in its own discretion, subject to agreements with sellers, buyers, and management teams, the board of directors of or lenders to portfolio companies, and/or third party co-investors in its transactions, and the

amount of such fees and reimbursements often will not (except in connection with the reductions described herein) be disclosed to investors in the Funds.

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, 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”) and, if applicable, Section 60 of the Investment Company Act. As a general matter, Co-Investment Funds and Feeder Funds do not directly pay any performance-based fees.

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, or, in the case of the Sub-Advised Funds, in the applicable sub-advisory agreement or in a side letter thereto. The Incentive Allocation provisions may be 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 will typically 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, creates 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, guidelines and other factors, 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. With respect to Co-Investment Funds, this conflict is mitigated because Co-Investment Funds invest in a portfolio company alongside one or more Main Funds in pre-set amounts. Any Alternative Investment Vehicle will generally contain terms and conditions substantially similar to those of the Main Fund with respect to which it is formed and profits

and losses of an Alternative Investment Vehicle generally will be aggregated with those of such Main Fund for purposes of determining distributions by the Main Fund and the Alternative Investment Vehicle (except as may be advisable because of legal, regulatory or tax constraints).

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 are generally established for investors in certain of 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:

- Bonds, convertible securities and equity securities issued by foreign or domestic issuers and denominated in foreign currencies or U.S. Dollars;
- Private placements or other securities that are not registered or are exempt from registration under the Securities Act, such as Rule 144A securities;
- Bank loans, bank participations, loans, and loan originations;
- 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;
- Repurchase agreements;
- Banker's acceptances;
- Certain real estate related instruments; or
- Interests in collateralized loan obligations.

Except with respect to the 1940 Act Funds, the REIT, and as may be set forth in a Fund's organizational documents, the Adviser's investment strategy is generally 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. The 1940 Act Funds are subject to certain issuer diversification and industry concentration limitations under the Investment Company Act and related SEC guidance. The REIT is subject to certain industry concentration requirements and income tests to qualify for treatment as a REIT under Sections 856 through 860 of the Code.

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 U.S. investments, and investing outside the U.S. may involve different risk considerations in comparison with risks of investing in the U.S. These risks include, but are not limited to: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; (iii) the difficulty of enforcing legal rights in a non-U.S. jurisdiction and uncertainties as to the status, interpretation and application of laws; (iv) different accounting, auditing and financial reporting standards, practices and requirements compared to those applicable to U.S. companies; (v) fluctuations in currency exchange rates; (vi) the risk of nationalization or expropriation of assets or confiscatory taxation; (vii) social, economic and political uncertainty, including war and revolution; (viii) dependence on exports and the corresponding importance of international trade; (ix) greater price fluctuations and market volatility, (x) less liquidity and smaller capitalization of securities markets; (xi) higher rates of inflation; (xii) controls on, and changes in controls on, non-U.S. investment and limitations on repatriation of invested capital and on the Fund's ability to exchange local currencies for U.S. dollars; (xiii) less extensive regulation of the securities markets; (xiv) longer settlement periods for securities transactions; and (xv) less developed corporate laws regarding fiduciary duties and the protection of investors. Non-U.S. markets may be smaller, less liquid, and subject to greater influence by adverse events generally affecting the market. 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

With respect to certain Funds, 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

Certain of the Funds engage in 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 has enacted legislation that provides for new regulation of the derivatives market, including clearing, margin, reporting and registration requirements, which may restrict a Fund's ability to engage in derivatives transactions or increase the cost or uncertainty involved

in such transactions. The European Union (and some other countries) are implementing similar requirements, which will affect a Fund when it enters into a derivatives transaction with a counterparty organized in that country, or otherwise subject to that country's derivatives regulations. Because these requirements are new and evolving (and some of the rules are not yet final), their ultimate impact remains unclear.

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"), a Fund's counterparty is a clearing house rather than a bank or broker. Since the Funds are not members of a clearing house and only members of a clearing house ("clearing members") can participate directly in the clearing house, the Funds hold cleared derivatives through accounts at a clearing member. In cleared derivatives positions, a Fund makes payments (including margin payments) to and receives payments from a clearing house through accounts at clearing members. Clearing members guarantee performance of their clients' obligations to the clearing house.

In some ways, cleared derivative arrangements are less favorable to the Funds than bilateral arrangements, for example, by requiring that the Funds provide more margin for their cleared derivatives positions. Also, as a general matter, in contrast to a bilateral derivatives position, following a period of notice to a Fund, a clearing member at any time can require termination of an existing cleared derivatives position or an increase in margin requirements above those required at the outset of a transaction. Clearing houses also have broad rights to increase margin requirements for existing positions or to terminate those positions at any time. Any increase in margin requirements or termination of existing cleared derivatives positions by the clearing member or the clearing house could interfere with the ability of a Fund to pursue its investment strategy. Also, a Fund is subject to risk if it enters into a derivatives transaction that is required to be cleared (or that the Adviser expects to be cleared), and no clearing member is willing or able to clear the transaction on the Fund's behalf. In those cases, the position might have to be terminated, and the Fund could lose some or all of the benefit of the position, including loss of an increase in the value of the position and loss of hedging protection.

Some types of cleared derivatives are required to be executed on an exchange or on 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. While this execution requirement is designed to increase transparency and liquidity in the cleared derivatives market, trading on a swap execution facility can create additional costs and risks for the Fund. For example, SEFs typically charge fees, and if the Fund executes derivatives on a SEF through a broker intermediary, the intermediary may impose fees as well. Also, a Fund may 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.

The U.S. government and the European Union have adopted mandatory minimum margin requirements for bilateral derivatives. Such requirements may increase the amount of margin a

Fund needs to provide in connection with its derivatives transactions and, therefore, make derivatives transactions more expensive.

These and other new rules and regulations may, among other things, further restrict a Fund's ability to engage in, or increase the cost to the Fund of, derivatives transactions, for example, by making some types of derivatives no longer available to the Fund or otherwise limiting liquidity.

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 risks referenced above, 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

Certain of the Funds 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

Certain of the Funds utilize swaps where the Adviser believes such investments 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.

Credit Default Swaps

A Fund may directly or indirectly use credit default swaps to take an active long or short position with respect to the likelihood of default by a corporate or sovereign issuer of fixed income securities (including asset-backed securities). In a credit default swap, one party pays, in effect, an insurance premium through a stream of payments to another party in exchange for the right to receive a specified return in the event of default (or similar events) by one or more third parties on their obligations. For example, in purchasing a credit default swap, a Fund may pay a premium in return for the right to put specified bonds or loans to the counterparty, such as a U.S. or non-U.S. issuer or basket of such issuers, upon issuer default (or similar events) at their par (or other agreed-upon) value. Rather than exchange the bonds for the par

value, a single cash payment may be due from the protection seller representing the difference between the par value of the bonds and the current market value of the bonds (which may be determined through an auction). A Fund, as the purchaser in a credit default swap, bears the risk that the investment might expire worthless. It also would be subject to counterparty risk – the risk that the counterparty may fail to satisfy its payment obligations to such Fund in the event of a default (or similar event). In addition, as a purchaser in a credit default swap, a Fund's investment would only generate income in the event of an actual default (or similar event) by the issuer of the underlying obligation. A Fund also may invest in credit default indices, which are indices that reflect the performance of a basket of credit default swaps.

A Fund also may use credit default swaps for investment purposes by selling a credit default swap, in which case such Fund will receive a premium from its counterparty in return for the Fund's taking on the obligation to pay the par (or other agreed-upon) value to the counterparty upon issuer default (or similar events). As the seller in a credit default swap, the Fund effectively adds economic leverage to its portfolio because, in addition to its total net assets, the Fund is subject to investment exposure on the notional amount of the swap. If no event of default (or similar event) occurs, the seller of a credit default swap would keep the premium received from the counterparty and generally would have no payment obligations, with the exception of an initial payment made on the credit default swap or any margin requirements with the credit default swap counterparty. For credit default swap agreements, trigger events for payment under the agreement vary by the type of underlying investment (e.g., corporate and sovereign debt, asset-backed securities, and credit default swap indices) and by jurisdiction (e.g., United States, Europe and Asia).

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

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" and may include unregulated private markets. This exposes the Fund 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. If 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 may be 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.

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

In the past, negative economic trends nationally as well as in specific geographic areas of the United States have resulted in an increase in loan defaults and delinquencies. Though levels of defaults and delinquencies have decreased from past peak levels, there is a material possibility that economic activity in the future will be volatile or will slow, and some obligors may be significantly and negatively impacted by negative economic trends. A decreased ability of obligors to obtain refinancing (particularly as high levels of required refinancing approach) may result in economic decline that could delay future economic recoveries and cause deterioration in loan performance generally.

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, assignments 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 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 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 Debt

Certain of the Funds invest in second-lien debt, 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 debt. The level of risk associated with investments in second-lien debt increases to the extent such investments are debt of distressed or below investment grade companies. A Fund's ability to amend the terms of such instruments, assign the instruments, accept prepayments, exercise the Fund's remedies (through "standstill periods") and control decisions made in bankruptcy proceedings relating to borrowers may be limited by intercreditor arrangements if there is debt senior to that Fund's debt outstanding.

Term Loans, Delayed Draw Loans, or Revolvers

A Fund may invest in a variety of different types of debt, including but not limited to term loans, delayed draw term loans, bridge loans, and revolving loans. A term loan is a loan that has a specified repayment schedule. A delayed draw loan is a loan that typically permits the borrower to withdraw predetermined portions of the total amount borrowed at certain times. A revolving credit facility differs from a delayed draw loan in that as the borrower repays the

loan, an amount equal to the repayment may be borrowed again during the term of the revolving credit facility. Delayed draw loans and revolving credit facilities usually provide for floating or variable rates of interest. If a Fund enters into or acquires a commitment with a borrower regarding a delayed draw loan or a revolver, such Fund will be obligated on one or more dates in the future to lend the borrower monies (up to an aggregate stated amount) if called upon to do so by the borrower. These commitments may have the effect of requiring such Fund to increase its investment in a borrower at a time when it might not otherwise decide to do so (including at a time when the company's financial condition makes it unlikely that such amounts will be repaid). Delayed draw loans and revolvers may be subject to restrictions on transfer, and only limited opportunities may exist to resell such instruments. As a result, a Fund may be unable to sell such investments at an opportune time or may have to resell them at less than fair market value. In the event that a contractual obligation extends beyond a Fund's investment period, such Fund would be required to meet such contractual requirements and, if it were unable to do so, would be subject to contractual penalties under such loans. A Fund's obligation to meet such contractual requirements, which may be met through drawdowns of capital commitments, may extend beyond such Fund's investment period.

Lower Rated Loans and Debt Instruments

Certain of the Funds 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.

Risks Associated with Non-Performing Loans

The loans purchased by the Funds may be or may become non-performing and may be in default. Furthermore, the obligor and/or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments with respect to the loans. By their nature, these investments will involve a high degree of risk. Such non-

performing loans (“NPLs”) may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of the principal of the loan and/or the deferral of payments. Commercial and industrial loans in workout and/or restructuring modes and the bankruptcy or insolvency laws of non-U.S. jurisdictions are subject to additional potential liabilities, which may exceed the value of a Fund’s original investment. For example, borrowers often resist foreclosure on collateral by asserting numerous claims, counterclaims and defenses against the holder of loans, including lender liability claims and defenses, in an effort to delay or prevent foreclosure. Even assuming that the collateral securing each loan provides adequate security for the loans, substantial delays could be encountered in connection with the liquidation of NPLs. In the event of a default by a borrower, these restrictions as well as the ability of the borrower to file for bankruptcy protection, among other things, may impede the ability to foreclose on or sell the collateral or to obtain net liquidation proceeds sufficient to repay all amounts due on the related loan. In addition, 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. Under certain circumstances, payments to a Fund and distributions by a Fund to participating investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Bad Banks

Certain Funds may purchase certain assets from “bad banks”, structures created to purchase illiquid, non-performing or otherwise distressed assets at a discount from banks. The bad bank then sells the assets over time. The structure of bad bank-driven loan portfolio sales are unlike those one would typically expect in the market. The loan sale documents under which assets would be acquired generally contain several unique features. For example, the bad bank generally provides extremely limited representations and warranties and typically does not provide any representation as to the title/ownership of the assets being sold. Rather, prospective buyers are expected to rely on their own due diligence and certain statutory provisions may apply, allowing the bad bank to sell the assets notwithstanding any restrictions that would otherwise apply at law or equity and notwithstanding any contractual provisions that would restrict such a sale. Complete due diligence materials may not always be available with respect to each asset, and engaging in such due diligence may be expensive and time-consuming. There is no guarantee that a Fund will be able to recover any amounts due on loan portfolios purchased from bad banks, and any recovery the Fund.

Financially Troubled Companies

A Fund may invest in the obligations of companies that are in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Investments in such financially troubled companies involve significantly greater risk than investments in non-troubled companies, and the repayment of obligations of financially troubled companies is subject to significant uncertainties. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers.

Loans issued by companies in bankruptcy are also highly risky, as there are a number of significant rights throughout the bankruptcy process, which may result in losses to a Fund. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. Additionally, a Fund may invest in the securities of financially troubled companies that are non-U.S. issuers. Such non-U.S. issuers may be subject to bankruptcy and reorganization processes and proceedings that are not comparable to those in the United States and that may be less favorable to the rights of lenders. There is no assurance that the Adviser will correctly evaluate the value of the assets underlying the securities or obligations purchased by a Fund or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which a Fund invests, such Fund may lose its entire investment, may be required to accept cash or securities with a value less than its original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated may not compensate investors adequately for the risks assumed.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, the risk exists that the reorganization will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price of the security in respect of which such distribution is made.

In certain transactions, a Fund may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

High Yield 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.

Covenant-Lite Loans

Certain of the Funds invest in covenant-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

Certain of the Funds 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. The debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization, and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

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. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to

the interests of a Fund. 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. Seventh, 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.

Further, a Fund may invest in distressed companies based in Organisation for Economic Co-operation and Development (OECD) countries and other non-U.S. countries. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

Unadjudicated Bankruptcy Claims

A Fund may also purchase creditor claims subsequent to the commencement of a bankruptcy case. With respect to buyers' risks related to the purchase of unadjudicated bankruptcy claims, buyers generally assume recovery risk. For example, prior to confirmation of a plan, buyers may assume risks related to claim treatment under the plan, delayed recovery, or even claim dilution in the event of substantive consolidation of the debtors' estates. In addition to recovery risk generally, there are potential claim-specific risks inherent in the purchase of unadjudicated bankruptcy claims, depending on the terms of the transaction documents. For example, if claims are not scheduled or otherwise undisputed, then claims are likely to become subject to objections by the debtor's estate based on technical or substantive defects or other

legal or equitable defenses. A debtor will seek to challenge the validity of claims and reduce or potentially disallow a claim depending on the circumstances. Depending on the complexity of the claim and the information available, the defense of such claims can become burdensome and costly for the party responsible for defending the claim, which depends on how the defense responsibility is allocated in the claim purchase agreement. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

Equitable Subordination.

Under common law principles that, in some cases, form the basis for lender liability claims, if a lender (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called “equitable subordination”). The Funds do not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, a Fund may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated. Certain Funds may make investments in which a Fund would not be the lead creditor. It is, accordingly, possible that lender liability or equitable subordination claims affecting such Fund’s investment could arise without the direct involvement of such Fund.

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

Certain Funds 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.

Potential for Insufficient Investment Opportunities; Competition

The success of certain Funds will depend, in part, on such Fund's ability to make investments on advantageous terms. The business of investing in debt investments is highly competitive. Market competition for investment opportunities includes traditional lending institutions, including commercial and investment banks, as well as a growing number of non-traditional participants, such as hedge funds, private equity funds, mezzanine funds, and other private investors, as well as business development companies ("BDCs"), and debt-focused competitors, such as issuers of CLOs and other structured loan funds. Some of these competitors may have access to greater amounts of capital and to capital that may be committed for longer periods of time, access to larger research staff or other resources, or may have different return thresholds than a Fund, and thus these competitors may have advantages not shared by such Fund. In addition, competitors may have incurred, or may in the future incur, leverage to finance their debt investments at levels or on terms more favorable than those available to a Fund. Although the Investment Adviser has been successful in locating investments in the past, a Fund may be unable to find a sufficient number of attractive opportunities to meet its investment objectives. Increased competition for, or a diminishment in the available supply of, qualifying investments could result in lower returns on such investments.

Investment in Small Companies

There is typically 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

Certain of the Funds 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

Certain of the Funds invest all or a portion of their assets in cash or cash equivalents for investment purposes, pending other investments or as provision of margin for derivatives 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

Certain of the Funds 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, certain Funds generally will not disclose all of their positions to their 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.

Oil and Gas Risks

Investments in the oil and gas industry are subject to certain risks, including, without limitation, (i) environmental risks, (ii) risks associated with increased or new legislation, particularly with respect to (a) hydraulic fracturing, (b) the risk of substantial loss of capital due to cost overruns, (c) delays, (d) dry holes, (e) fires, (f) explosions and (g) other disasters associated with oil and gas production (including production through hydraulic fracturing), (iii) risks associated with relying on third parties to develop and operate the projects in which certain Funds invest, (iv) the risk of substantial fluctuations in commodity prices, (v) the risk of decreased supply of oil or natural gas reserves, and (vi) the risk of reduced demand for oil and gas (whether due to conservation measures, advances in fuel economy, consumer demand for alternatives to oil and gas, or other causes).

Energy Investments - Regulatory Risks

Certain funds may invest in companies in the energy industry. Companies in the energy industry are subject to federal, state and local laws and regulations regarding issues of health, safety, climate change and protection of the environment. Under these laws and regulations, the companies in which a Fund may invest and/or provide financing, and indirectly a Fund, may become liable for penalties, damages or costs of remediation or other corrective measures. Any changes in laws or government regulations could increase the costs of doing business for the companies in which a Fund invests and/or provides financing, which may be subject to stringent federal, state and local laws and regulations relating to, among other things, protection of natural resources, wetlands, endangered species, the environment, health and safety, waste management, waste disposal and transportation of waste and other materials. Such operations pose risks of environmental liability, including leakage from operations to surface or subsurface soils, surface water or groundwater. Some environmental laws and regulations may impose strict liability, joint and several liability, or both. Therefore, in some situations, the companies in which a Fund invests and/or provides financing could be exposed to liability as a result of their conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, third parties without regard to whether such companies caused or contributed to the conditions. Actions arising under these laws and regulations could result in the shutdown of such companies' operations, fines and penalties, expenditures for remediation or other corrective measures, and claims for liability for property damage, exposure to hazardous materials, exposure to hazardous waste or personal injuries. Sanctions for noncompliance with applicable environmental laws and regulations also may include the assessment of administrative, civil or criminal penalties, revocation of permits, temporary or permanent cessation of operations in a particular location and issuance of corrective action orders. Such claims or sanctions and related costs could cause the companies in which a Fund invests and/or provides financing to incur substantial costs or losses and could have a material adverse effect

on their business, financial condition, results of operations and cash flows. Additionally, an increase in regulatory requirements on oil and gas exploration and completion activities could significantly delay or interrupt such companies' operations. In particular, companies in which a Fund invests and/or provides financing could become subject to legislative and regulatory initiatives relating to hydraulic fracturing, which could result in increased costs and additional operating restrictions, delays or prohibitions on production of natural gas using hydraulic fracturing. Additionally, various state governments and regional organizations are considering enacting new legislation and promulgating new regulations governing or restricting hydraulic fracturing or the emission of greenhouse gases from stationary sources such as equipment and operations.

Energy Investments - Development Risks

A Fund may invest in and/or provide financing to projects and facilities at an early stage of development, involving risks of failure to obtain or substantial delays in obtaining: (i) regulatory, environmental or other approvals or permits; (ii) financing; and (iii) suitable equipment supply, operating and offtake contracts. These projects involve additional uncertainties, including the possibility that the projects may not be completed, operating licenses may not be obtained, and permanent financing may be unavailable. Further, there is no assurance that these projects will be profitable or generate cash flow sufficient to service their debt or provide a return on or recovery of amounts invested therein.

Energy Investments - Operating Risk

A Fund may invest in and/or provide financing to operating facilities. Operation of such facilities involves certain operational risks, which include: the possibility of performing below expected levels of output, availability or efficiency; interruptions in fuel or other necessary supplies; increases in the cost of fuel or other necessary supplies; pipeline disruptions; power shutdowns; breakdown or failure of equipment or processes; accidental discharges of hazardous materials; labor disputes; changes in law; failure to obtain or maintain necessary governmental permits; or catastrophic events such as fires, earthquakes, lightning, explosions, hurricanes, tornados, floods or similar occurrences affecting a facility in which a Fund has invested and/or provided financing or its purchasers, suppliers or transporters. In addition, investments in energy companies or facilities may involve, among other risks, (i) the risk that such company or facility is unable to obtain desirable amounts of insurance at economic rates; (ii) the risk that the technology employed in an energy project will not be effective or efficient; and (iii) the risk of changes in values of companies in the energy sector whose operations are affected by changes in prices and supplies of energy fuels. Significant oil and gas deposits are located in emerging markets countries where corruption and security may raise significant risks, in addition to the other risks of investing in emerging markets.

Energy Investments - Volatility of Prices

The success of a Fund's investments in the energy sector, and specifically investments in oil and gas companies, will be substantially dependent upon the market prices for oil and natural gas, both worldwide and in North America. Historically, the markets have been volatile and such volatility may continue to recur in the future. Various factors beyond the control of

market participants will affect prices of oil and natural gas, including: the worldwide and North American supplies of oil and natural gas; the ability of the members of the Organization of Petroleum Exporting Countries (OPEC) to agree to and maintain oil prices and production controls; political instability, terrorist acts or armed conflict in oil or natural gas producing regions or involving transportation facilities; the price and level of oil and natural gas imported from non-North American countries; the level of consumer demand generally, and the rate of growth of demand for oil in China, India and other developing economies; the price, availability and acceptance of alternative fuels; the availability of pipeline capacity; weather conditions; governmental regulations, price controls and taxes; and the overall economic environment.

Energy Investments - Exploration and Production Risks

Certain companies in which a Fund invests may engage in the exploration and production (“E&P”) of oil and natural gas. E&P companies are particularly vulnerable to declines in the demand for and prices of crude oil and natural gas. Reductions in prices for crude oil and natural gas can cause continued production from a given reservoir to cease being economical earlier than it would if prices were higher, resulting in the plugging and abandonment of, and cessation of production from, that reservoir. In addition, lower commodity prices not only reduce revenues but also can result in substantial downward adjustments in reserve estimates. The accuracy of any reserve estimate is a function of the quality of available data, the accuracy of assumptions regarding future commodity prices and future exploration and development costs and engineering and geological interpretations and judgments. Different reserve engineers may make different estimates of reserve quantities and related revenue based on the same data. Actual oil and gas prices, development expenditures and operating expenses will vary from those assumed in reserve estimates, and these variances may be significant. Any significant variance from the assumptions used could result in the actual quantity of reserves and future net cash flow being materially different from those estimated in reserve reports. In addition, results from drilling, testing and production and changes in prices after the date of reserve estimates may result in downward revisions to such reserve estimates. Substantial downward adjustments in reserve estimates could have a material adverse effect on a given E&P company’s financial position and results of operations and could result in acceleration of result-based loans or defaults thereunder. Actual amounts produced from such reserves may similarly vary. In addition, due to natural declines in reserves and production, E&P companies must economically find or acquire and develop additional reserves in order to maintain and grow their revenues and distributions.

Energy Investments - Drilling, Exploration, Development and Mining Risks

A Fund may invest in companies that engage in oil and gas exploration and development, a speculative business involving a high degree of risk. Oil and gas drilling may involve unprofitable and unsuccessful efforts. Companies engaged in oil and gas exploration and development may expend significant amount of capital drilling in wells that do not produce oil or gas, or in wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Additionally, if multiple rounds of drilling are undertaken before oil or gas is located or produced, the investment may be carried at little or no value, may face increased borrowing costs or trigger lending covenants, and may produce lower returns on an aggregate or an IRR basis. Acquiring, developing and exploring for oil and

natural gas involve many risks. These risks include encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failure and other accidents in completing wells and otherwise, cratering, sour gas releases, pipeline failures, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, release of toxic or otherwise hazardous substances, fires, explosions, spills and other environmental, health and safety risks. Additionally, mining of coal or metals is subject to inherent risks including unexpected equipment or maintenance problems, variations in geological conditions, natural disasters, underground mine floodings, environmental, health and safety hazards, industrial accidents, explosions caused by the ignition of coal dust or other explosive materials at mine sites and fires caused by the spontaneous combustion of coal and, in certain cases, periodic labor unrest.

The risks and hazards inherent in the oil and gas industries, some of which are enumerated above, have the potential of causing widespread and catastrophic environmental disasters. Such disasters could materially and adversely harm the companies in which a Fund invests that are directly or indirectly responsible for causing or exacerbating such disasters or the industry as a whole. In addition to the economic costs resulting from such disasters that the energy companies may have to bear through liability for third-party losses or the cessation or suspension of operations (which amounts could be greater than aggregate commitments, with respect to a Fund), such disasters could cause severe reputational damage to such companies or the industry as a whole.

Energy Investments - Midstream Energy Investment Risks

Investments in companies owning, controlling or investing in midstream energy assets, including oil and gas pipelines and terminals, are subject to a variety of risks not necessarily associated with other types of energy investments. Such risks may include: (i) the risk that the market for the refined products gathered by, transported on and stored in the midstream assets held by companies in which a Fund invests may decline due to a reduction in downstream customer base or end-user demand; (ii) the risk that the land on which midstream assets held by companies in which a Fund invests are located will not be owned by such portfolio company or its affiliates, and therefore will be subject to risks associated with obtaining and maintaining necessary land use rights, contracts and permits from unrelated third parties; (iii) the risk that Federal Energy Regulatory Commission ("FERC") may regulate tariff rates for interstate movements of oil and gas on the pipeline systems held by companies in which a Fund invests in a manner that adversely affects the profitability of a Fund's investments in such companies; (iv) the risk that, even if FERC permits an increase in tariff rates charged on the pipeline systems held by companies in which a Fund invests, competition from other pipeline systems may prevent such companies from doing so; (v) the risk that any reduction in the capacity of interconnecting third-party pipelines due to testing, line repair, reduced operating pressures or other causes may result in a reduction of oil and gas volumes transported on pipelines or stored in terminals held by portfolio companies in which a Fund invests, thereby potentially adversely affecting the profitability of a Fund's investments in such companies; (vi) the risk that refined oil and gas products and other hydrocarbons transported on and stored in the midstream assets held by companies in which a Fund invests may be released into the environment, which could cause such companies to be required to make substantial

expenditures for responsive action or government-imposed penalties, to be liable to government agencies or private parties for natural resources damages, personal injury or property damages, and to be subjected to significant business interruption; and (vii) the risk that, as a result of their ownership or control of or investment in regulated assets such as pipelines, companies in which a Fund invests may be subject to unfavorable rulings imposed by regulatory authorities.

Energy Investments - Natural Resources; Minerals; Commodity Risk

A Fund may make investments in natural resource companies, including mining companies, the business activities of which involve significant risk. Natural resource companies usually have limited production, marketing, and financial resources and are, therefore, more vulnerable to the adverse impact of competition and changes in market conditions. Other risk factors to be considered in resource exploration, extraction and distribution include price fluctuations in the minerals and metals markets, political events, fluctuations in exchange rates, extraction rates and costs, possible claims of indigenous peoples, natural disasters, protests by environmental groups, mine reclamation requirements, eco-terrorism, continuity of mineable reserves, changes in market demand and supply for commodities, changes in technology reducing competitiveness, environmental liability, availability of essential infrastructure, labor relations, industrial accidents and reclamation obligations.

Exploration programs for natural resources may not result in exploration success. Mineral exploration by its nature is a high-risk endeavor and consequently there can be no assurance that exploration by companies, or any other projects that may be acquired in the future, will result in discovery of an economic mineral deposit. Should a discovery be made, there is no guarantee that it will be commercially viable.

Additionally, minerals and mining industries have become subject to increasing environmental responsibility, liability and regulation. The use and disposal of chemicals in the mining industry is under constant legislative scrutiny and regulation. Such risks may result in liability to the companies in which a Fund invests, which may adversely affect a Fund's performance.

The companies in which a Fund may invest may be subject to commodity price risk, including, without limitation, the price of oil and the price of gas. The operation and cash flows of the companies in which a Fund invests will depend, in substantial part, upon prevailing market prices for power, oil, gas and other natural resources. These market prices may fluctuate materially depending upon a wide variety of factors, including, without limitation, weather conditions, market supply and demand, force majeure events, changes in law and a variety of additional factors that are beyond the control of a Fund.

Energy Investments - Renewable Energy Risks

A Fund may invest in companies that participate in renewable energy projects. The market for renewable energy is rapidly evolving, and its future success is uncertain. If the demand or political support for renewable energy products fails to develop sufficiently (including as a result of changes in market conditions, such as a decrease in the price of fossil fuels), or changes in state or federal subsidies, companies' investments in renewable energy projects may

be adversely affected. While renewable energy projects currently enjoy, in general, widespread support from many federal, state and local governments and regulatory agencies, there is no assurance that such support will continue in the future and any reduction or elimination of governmental support will have an adverse effect on the development and progress of the renewable energy market. Many renewable energy projects rely heavily on incentives that support the sale of energy generated from renewable sources, including state-adopted “Renewable Portfolio Standard” programs in the United States and similar programs in other countries, which vary among states and such other jurisdictions, but generally require utilities to provide a minimum percentage or base amount of electricity from specified renewable energy sources for a given period of time. There can be no assurance that such incentive programs will continue. In addition, certain investments may be dependent on weather and other climate conditions. For example, solar power generators rely on the frequency and intensity of sunlight, wind turbines upon the frequency and intensity of the wind, and companies focused on biomass rely on the production of crops, which can be adversely affected by droughts and other weather conditions.

Risks of Investing in Real Estate and Real Estate Securities

Certain of the Funds may invest in real estate either directly or indirectly through real estate related securities. Those Funds will usually invest in a real estate asset on a passive basis, giving a third-party operating partner and/or property manager a large degree of authority and responsibility for daily management of the assets. The Funds may also invest a portion of their assets in a concentrated portfolio of real estate securities. The Funds may in large part be dependent on the ability of third parties to successfully operate the underlying real estate assets. In the event that a Fund invest in real estate with a joint venturer or partner, the Fund may be unable to exercise sole decision-making authority (including determining when to liquidate such assets) and will be subject to the risk that a joint venturer or partner will act negligently or in a manner contrary to the Fund’s best interest. Movements in the overall real estate market due, for example, to changes in property values, cyclical changes in the economy, vacancies of rental properties, overbuilding, environmental liabilities, changes in local laws, changes in property taxes, changes in the Code, or changes in interest rates could adversely impact the Funds. In addition, the real estate securities in which a Fund may invest are potentially subject to the impact of leverage at both the property and entity levels. For example, the Funds may invest in real estate operating properties which are highly leveraged (through both on and off balance sheet financing). There is no assurance that there will be a ready market for resale of investments because investments in real-estate-related assets generally are not liquid. Illiquidity may result from the absence of an established market for the investments, as well as from legal or contractual restrictions on their resale by the Funds.

Non-U.S. Real Estate Securities

Certain of the Funds may invest in the securities of real estate companies domiciled outside the United States, some of which may have substantial holdings of U.S. real estate assets. To the extent they do so, the Funds will be subject to numerous factors related to conducting business in foreign countries, any of which could have a significant impact on the Funds’ operations. Laws (particularly real estate and securities laws) and regulations, accounting and financial

reporting standards, and general investor access to information in such countries may be different than in the United States and provide less protection to investors.

Risks of Investments in Hard Assets

Certain of the Funds may invest in hard assets such as aircraft, rail cars, ships, power plants, distribution networks, toll roads, other infrastructure assets and various types of machinery and equipment. These investments are subject to risks - destruction, loss, terrorist attacks, industry-specific regulation (e.g., pollution control regulation), operating failures, labor relations, etc. - that typically may not be present with respect to other investments a Fund may make. In addition, the regulation of such assets is extensive and variable, and a Fund's commitment to certain of such assets (e.g., if such Fund were to invest in a power plant) could be wholly illiquid for long periods of time.

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 ("Mortgage Assets"), as well as the risks associated with investments in the Mortgage Assets and serving as Directing Certificateholder with respect to certain trusts issuing the Mortgage 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

Certain of the Funds 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.

In the past, 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 typically been most acute with regard to sub-prime assets, in the past there has been an overall reduction in liquidity across the credit spectrum of mortgage products, and similar developments in the future could have an adverse impact on certain of the Funds' 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 nonperforming 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. A Fund may rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. 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-Backed Securities ("CMBS")

Certain of the Funds invest in a variety of CMBS, which may include subordinate securities that are subject to the first risk of loss if any losses are realized on the underlying mortgage loans. CMBS entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of commercial or multifamily mortgage loans. Consequently, CMBS will be adversely affected by payment defaults, delinquencies and losses on the underlying commercial real estate loans. Furthermore, if the rental and leasing markets deteriorate, it could reduce cash flow from the loan pools underlying our CMBS investments. The CMBS market is dependent upon liquidity for refinancing and will be negatively impacted by a slowdown in the new issue CMBS market.

Additionally, CMBS is subject to particular risks, including lack of standardized terms and payment of all or substantially all of the principal only at maturity rather than regular amortization of principal. Additional risks may be presented by the type and use of a particular commercial property. The exercise of remedies and successful realization of liquidation

proceeds relating to CMBS may be highly dependent upon the performance of the servicer or special servicer. Expenses of enforcing the underlying commercial real estate loans (including litigation expenses) and expenses of protecting the properties securing the commercial real estate loans may be substantial. Consequently, in the event of a default or loss on one or more commercial real estate loans contained in a securitization, we may not recover a portion or all of our investment.

B-Notes and Mezzanine Loans

Certain Funds may originate or invest in B-Notes and mezzanine loans, which may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses to such Funds.

A Fund may sell or retain the B-Notes from whole loans it originates. As a result, if a borrower defaults, there may not be sufficient funds remaining for B-Note owners after payment to the A-Note owners. However, since each transaction is privately negotiated, B-Notes can vary in their structural characteristics and risks. For example, the rights of holders of B-Notes to control the process following a borrower default may be limited in certain investments. A Fund cannot predict the terms of each B-Note investment. Further, B-Notes often are secured by a single property, and so reflect the increased risks associated with a single property compared to a diversified pool of loans and properties securing a B-Piece investment. B-Notes also are less liquid than CMBS; thus a Fund may be unable to dispose of under-performing or non-performing investments.

Certain Funds may originate mezzanine and other subordinate loans, which take the form of subordinate loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than a long-term senior mortgage loan secured by income-producing real property, because the loan may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, a Fund may not have full recourse to the assets of the property owning entity, or the assets of the entity may not be sufficient to satisfy such Fund's loan. If a borrower defaults on a Fund's mezzanine or subordinate loan, or in the event of a borrower bankruptcy, that Fund's loan will be satisfied only after the senior debt is paid in full. As a result, such Fund may not recover some or all of its initial expenditure. In addition, mezzanine loans may have higher loan-to-value ratios than first mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to a Fund's mezzanine loans may adversely affect such Fund's performance and may limit such Fund's ability to pay distributions.

Commercial Real Estate Debt Investments

Certain of the Funds hold or (through its investments in CMBS) are exposed to commercial real estate debt or commercial real estate securities. Commercial real estate debt investments are generally secured by a lien on 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. Special risks are presented by hospitals, nursing homes, hospitality properties and certain other property types. 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, rather than upon the liquidation value of the underlying real estate. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Furthermore, the net operating income from and value of any commercial property are subject to various risks. 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.

A Fund's commercial real estate debt portfolio may include loans made to developers to construct prospective projects. The primary risks to such Fund of construction loans are the potential for cost overruns, the developer's failing to meet a project delivery schedule and the inability of a developer to sell or refinance the project at completion in accordance with its business plan and repay the commercial real estate loan due to declining real estate values. These risks could cause such Fund to have to fund more money than originally anticipated in order to complete the project. Such Fund may also suffer losses on its commercial real estate debt if the developer is unable to sell the project or refinance the commercial real estate debt investment.

Real Estate Debt Restructurings

A Fund may need to restructure its commercial real estate debt investments if the borrowers are unable to meet their obligations and the Adviser believes restructuring is the best way to maximize value. In order to preserve long-term value, a Fund may lower the interest rate on commercial real estate debt investments in connection with a restructuring, which will have an adverse impact on the Fund's net interest income. Such Fund may also determine to extend the time to maturity and make other concessions with the goal of increasing overall value but there is no assurance that the results of its restructurings will be favorable to it. It may lose some or all of its investment even if it restructures in an effort to increase value.

A Fund may be unable to restructure loans in a manner that maximizes value, particularly if such Fund is one of multiple creditors in a large capital structure. In the current environment,

in order to maximize value a Fund may be more likely to extend and work out a loan, rather than pursue foreclosure. However, in situations where there are multiple creditors in large capital structures, it can be particularly difficult to assess the most likely course of action that a lender group or the borrower may take and it may also be difficult to achieve consensus among the lender group as to major decisions. Consequently, there could be a wide range of potential principal recovery outcomes, the timing of which can be unpredictable, based on the strategy pursued by a lender group and/or by a borrower. These multiple creditor situations tend to be associated with larger loans. If a Fund is one of a group of lenders, such Fund may be a lender on a subordinated basis, and may not independently control the decision making. Consequently, such Fund may be unable to restructure a loan in a manner that would maximize value.

Defaults and Foreclosures on Mortgage Loans; Eminent Domain

Certain of the Funds may originate or 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.

Certain states in which the collateral securing a Fund's commercial real estate debt and securities is located may have laws that prohibit more than one judicial action to enforce a mortgage obligation, requiring the lender to exhaust the real property security for such obligation first or limiting the ability of the lender to recover a deficiency judgment from the obligor following the lender's realization upon the collateral, in particular if a non-judicial foreclosure is pursued. These statutes may limit the right to foreclose on the property or to realize the obligation secured by the property.

Also, in the past, mortgage loan originators have experienced serious financial difficulties or bankruptcy. The foregoing, as well as simultaneous reduced investor demand for mortgage loans and mortgage-related securities and increased investor yield requirements, have, in the past, caused limited liquidity in the secondary market for mortgage-related securities, which has adversely affected the market value of mortgage-related securities. Should similar developments occur in the future, 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 property underlying a Fund's commercial real estate debt investments and forgive principal on the loans. Such seizures, if they are successful, could result in losses and write-downs relating to a Fund's real estate investments 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.

Future Advance Obligations

Certain Funds may be subject to risks associated with future advance obligations, such as declining real estate values and operating performance. A Fund's commercial real estate debt portfolio may include loans that require the Fund to advance future funds. Future funding obligations subject such Fund to significant risks that the property may have declined in value, projects to be completed with the additional funds may have cost overruns and the borrower may be unable to generate enough cash flow, or sell or refinance the property, in order to repay the commercial real estate loan due. The Adviser could determine that a Fund needs to fund more money than originally anticipated in order to maximize the value of its investment even though there is no assurance additional funding would be the best course of action.

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

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.

Syndication of Co-investments

From time to time, a Fund may make an investment with the expectation of offering a portion of its interests therein as a co-investment opportunity to investors and / or other third-party investors. There can be no assurance (1) that a Fund will be successful in syndicating such co-investment, in whole or in part, (2) that the closing of such co-investment will be consummated in a timely manner, (3) that the syndication will take place on terms and conditions that will be preferable for a Fund or (4) that expenses incurred by a Fund with respect to such syndication will not be substantial. If a Fund is not successful in syndicating such co-investment, in whole or in part, a Fund may consequently hold a greater concentration and have more exposure in the related investment than initially was intended, which could make a Fund more susceptible to fluctuations in value resulting from adverse economic and / or business conditions with respect thereto. Moreover, an investment by a Fund which is not syndicated to co-investors as originally anticipated could significantly reduce a Fund's overall investment returns.

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 Investments in Litigation-Related Funding

Selecting investments in litigation-related funding involves an assessment of the ability of the defendant to pay a judgment or award if the case is successful. If the defendant is unable to pay or the plaintiff or defendant seeks to challenge the validity of the investment on legal or professional ethics grounds, the Funds and, in the case of loans to law firms, law firms (as the case may be) may encounter difficulties collecting their contractually agreed share of litigation recoveries from plaintiffs selling such interests or lawyers with which such law firms has a co-counsel relationship. There can be no guarantee that cases in which the Funds invest, either directly or through loans to law firms, will be successful. In addition, the cases in which the Funds directly invests or finances through loans may take considerable time (whether because of appeals or otherwise) or result in a distribution of cash, new security or other assets, the value of which may be less than the investment made by the Funds.

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 CLOs, Other Related Investments and Risk Retention

Certain Funds may invest in interests in CLO securities, including the CLO Funds, and the Adviser currently manages and expects to continue to manage the investment portfolios of one or more CLO Funds. Certain Funds may invest in a significant portion of the subordinated debt or preferred equity tranche, commonly known as the "equity", of a CLO whose investment portfolio is managed by the Adviser or its affiliates. A Fund may also invest in various tranches of more senior debt securities issued by CLOs, including those managed by the Adviser or its affiliates, as well as in various tranches of securities issued by CLOs managed by third parties. Investing in CLOs or financing vehicles sponsored by the Adviser or its affiliates would result in certain conflicts of interest. See Item 11 below for more information.

The ability of CLOs to make distributions or pay dividends will depend on the extent to which payments are made on their portfolio assets and, among other things, on the terms and

conditions of the indentures governing the relevant CLO securities. For example, tests (based on overcollateralization, interest coverage or other financial ratios) may restrict a Fund's ability, as holder of such a CLO's securities, 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. 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, or cash flow may be completely restricted for the life of the CLO. Holders of the more senior debt tranches of such a vehicle will often receive current payments of principal and interest at times when the factors enumerated above preclude payments and distributions to a Fund to the extent that it holds some or all of the more junior debt and equity tranches of such CLO. 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 and, in turn, cash potentially available for payment or distribution to a Fund.

The CLO securities held by certain Funds may be subordinate to other CLO securities issued by such CLO and to other creditors of such CLO. To the extent that any losses are incurred by the CLO in respect of any collateral, such losses will be borne first by the holders of the CLO equity, and next by the most junior tranches of CLO debt. The CLO equity interests that a Fund may hold would not be secured by the CLO's assets and no person or entity other than the CLO is required to make any distributions on the equity interests. To the extent that the CLO incurs any losses in respect of any collateral, such losses will be borne first by the holders of common or preferred shares or other equity interests. The assets held by private CLOs are often less liquid than the assets held by other types of CLOs. This characteristic may increase the risk that the proceeds of a private CLO's assets will be insufficient to fund a return of a Fund's investment when the private CLO is liquidated. The subordination of the more junior tranches of CLO securities makes such CLO securities leveraged investments in the assets of the relevant CLO. Use of leverage is a speculative investment technique and involves certain risks to investors. Although the use of leverage generally magnifies CLO equity's (and, indirectly, a Fund's) opportunities for gain, it also magnifies risk of loss as well as financing expenses. Returns to a Fund on any holding of a CLO security will depend on the amount of such leverage and on changes in interest rates, delinquencies and losses on the underlying assets. As a result, a Fund may receive payments in respect of any investment in a CLO security that are, in the aggregate, less than the original amount of its investment in such CLO security.

In some cases, a vehicle may use a relatively short-term credit facility or a derivative transaction (often known as a "warehouse") to finance the acquisition of loans and other assets until a sufficient quantity of assets is accumulated to permit the issuance of securities by a CLO. Certain Funds may provide debt or equity financing in connection with such warehouses. Warehouse investments may decline in value prior to the closing of the applicable CLO, and, in the event that a CLO for which a Fund provides warehouse financing is unsuccessful at raising permanent capital, there can be no assurance that the value of the warehouse investments upon liquidation will meet or exceed the amount that such Fund and

any senior lenders are providing in warehouse financing. The short term focus of warehouse investments increases the risk to a Fund that an adverse change in prevailing interest rates or interest rate spreads could prevent a CLO from raising capital and could adversely affect the value of the warehouse assets at the time that they are liquidated.

In addition to investing in CLO securities, certain Funds may invest in entities that qualify as eligible risk retainers (“Risk Retention Vehicles”) with respect to CLO issuers. Risk retention requirements are new regulatory developments and still uncertain but will likely require a Risk Retention Vehicle to hold certain credit risk for all or most of the life of the CLO issuer, such that the Fund’s investments may be highly illiquid, redemption and re-sale rights are expected to be very limited and there is no guarantee a Fund will receive a return of its capital or the net asset value of its investment. A Fund’s investment is expected to be a minority investment with little or no ability to influence the activities of such Risk Retention Vehicle. There is no guarantee that any Risk Retention Vehicles in which a Fund will invest will satisfy the applicable risk retention requirements or that such requirements or regulatory interpretations thereof may not change over time or would not require actions on the part of the Risk Retention Vehicle that are ultimately adverse to the value of such Fund’s investment. By investing in any entity that provides management services and serves as a risk retainer to CLO issuers, a Fund would be indirectly exposed to the contractual and other expenses, liabilities and obligations, including with respect to regulatory actions, that such entity has assumed in providing such services to the applicable CLO issuers.

Business Development Companies

Certain Funds may invest in BDCs. BDCs generally invest in less mature U.S. private companies or thinly traded U.S. public companies which involve greater risk than well-established publicly-traded companies. Some BDCs expect to generate income in the form of dividends and other BDCs, during certain periods of time, may not generate such income. A Fund will indirectly bear its proportionate share of any management fees and other operating expenses incurred by any BDC in which it invests and of any performance-based or incentive fees payable by the BDCs in which it invests, in addition to the expenses of the BDC. These fees and expenses would be in addition to the fees, Incentive Allocation and expenses of the Fund. A BDC’s incentive fee may vary from year to year and be payable even if the value of the BDC’s portfolio declines in a given time period. Incentive fees may create an incentive for a BDC’s manager to make investments that are risky or more speculative than would be the case in the absence of such compensation arrangements, and may also encourage the BDC’s manager to use leverage to increase the return on the BDC’s investments. These limitations on asset mix and leverage may affect the way that the BDC raises capital. The use of leverage by BDCs magnifies gains and losses on amounts invested and increases the risks associated with investing in BDCs. A BDC may make investments with greater risk of volatility and loss of principal than other investment options and may also be highly speculative.

A Fund and the Adviser may be restricted or may determine it is not in the interests of such Fund, the Adviser or its affiliates to acquire over certain threshold amounts of a single BDC or related BDCs due to certain provisions and requirements of the 1940 Act applicable to affiliates of a BDC.

Certain BDCs may be difficult to value since many of the assets of BDCs do not have readily ascertainable market values. Therefore, such assets are most often recorded at fair value, in good faith, in accordance with valuation procedures adopted by such companies, which may potentially result in material differences between a BDC's net asset value ("NAV") per share and its market value. In addition, historically, many BDCs have traded at a discount to their NAV. To qualify and remain eligible for the special tax treatment accorded to regulated investment companies ("RICs") and their shareholders under the Code, BDCs must meet certain source-of-income, asset diversification and annual distribution requirements. If a BDC in which a Fund invests fails to qualify as a regulated investment company, such BDC would be liable for federal, and possibly state, corporate taxes on its taxable income and gains. Such failure by a BDC could substantially reduce the BDC's net assets and the amount of income available for distribution to the Fund, which would in turn decrease the total return of such Fund. Furthermore, to the extent the BDC invests in portfolio companies and instruments, or industries, sectors or geographies in which a Fund is also invested directly or indirectly through other means, such Fund's concentration in such portfolio companies, instruments, industries, sectors or geographies may be greater than the Adviser anticipates. A Fund's investment restrictions will apply on direct purchases by such Fund, but not with respect to indirect purchases made by any BDC.

Business and Regulatory Risks of Private Investment Funds

Legal, tax and regulatory changes could occur during the term of a Fund that may adversely affect such Fund. The regulatory environment for private investment funds and their investment advisers is evolving, and changes in the regulation of private investment funds or their investment advisers may adversely affect the value of investments held by a Fund and the ability of a Fund to obtain the leverage it might otherwise obtain or to pursue its trading strategies. Additionally, changes in regulation may make it prudent to restructure one or more Funds and the Funds will bear the cost of any such restructuring. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements and the SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. In addition, regulators are increasingly considering the role of non-bank lenders. There is no guarantee that laws and regulations applicable to non-bank lenders will not change in a manner that adversely affects a Fund, including the ability of a Fund to originate loans or otherwise restrict a Fund's activities in this regard, or otherwise restrict or materially increase the cost of business to a Fund of pursuing all potential investment strategies and options.

Cybersecurity Risk

The Adviser, the Funds' service providers and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the Funds and their investors, despite the efforts of the Adviser and the Funds' service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the Fund and its investors. For example, unauthorized third parties may attempt to improperly access,

modify, disrupt the operations of, or prevent access to these systems of the Adviser, the Funds' service providers, counterparties or data within these systems. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of the Adviser's systems to disclose sensitive information in order to gain access to the Adviser's data or that of the Funds' investors. A successful penetration or circumvention of the security of the Adviser's systems could result in the loss or theft of an investor's data or funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such incidents could cause the Funds, the Adviser or their service providers to incur regulatory penalties, reputational damage, additional compliance costs or financial loss.

Similar types of operational and technology risks are also present for the companies in which the Funds invests, which could have material adverse consequences for such companies, and may cause the Funds' investments to lose value.

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 in certain cases are 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 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 ("Merganser"): a U.S. registered investment adviser with the SEC.

- BDCA Adviser, LLC: a U.S. registered investment adviser with the SEC and an affiliate of Providence.
- Providence Equity Advisors Mauritius Limited: organized in Mauritius and regulated by the Mauritius Financial Services Commission.
- Providence Equity Asia Advisors Pte. Ltd.: a foreign advisory affiliate and wholly-owned subsidiary of Providence Equity Partners L.L.C., organized in Singapore and regulated by the Monetary Authority of Singapore.
- 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 adviser.
- Providence Strategic Growth Capital Partners L.L.C.: located in Providence, has filed a single Form ADV with Providence Equity Partners L.L.C. as a relying adviser.

Clients of the Adviser may from time to time participate in transactions alongside other clients of the Adviser 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, as well as the Adviser's registration as a CTA.

Merganser is operated and managed separately from the Adviser, and Merganser does not have any involvement in the day-to-day investment operations of the Adviser. The Adviser does not direct or coordinate investment recommendations with Merganser and all such recommendations and allocations of investment opportunities are made by the Adviser independent of Merganser.

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 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, derivative instruments, and shares of closed-end investment companies registered under the Investment Company Act and business development companies. 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 in securities by employees for their personal accounts is prohibited without pre-clearance by the Adviser's Chief Compliance Officer or his designee.

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 4920, 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. Certain Funds 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 upon the sale of 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 (h) any other specific factors which may affect pricing. The Adviser also considers the application of control premiums and certain discounts 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 use third-party valuation services to assist with any or all valuations of a Fund's portfolio investments.

The Adviser may modify the valuation methods described above if it 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/or their family members and related vehicles invest in and alongside certain of the Funds, and/or 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 are typically 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 provides 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 are strategic investors directly or indirectly into the Adviser, which results 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 considers 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 and the Investment Company Act as they relate to principal transactions, including, among other things, 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 create conflicts of interest because a Fund is on both sides of the transaction. The Adviser on occasion, and to the extent permitted by applicable

law, including the Investment Company Act, and the Adviser's or an applicable Fund's compliance policies and procedures, purchases a security or securities for one Fund at the same time as a sale of the same security or securities for another Fund or effects 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. Any such transactions in publicly traded securities generally would 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 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 another Fund or another 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, which may include limiting investments by a Fund which produce such conflicts, limiting voting or roles on creditors' committees, procedures designed to ensure that the teams managing the investments make independent decisions through the enforcement of information barriers and similar procedures, or other procedures in the judgment of the Adviser.

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 of the relevant Funds. Allocation decisions can raise conflicts, for example, if the Funds or the clients of the Adviser's affiliates 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 of the Adviser's affiliates 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, anticipated, target or available leverage, unsettled trades, unfunded commitments, and uncalled capital. In addition, certain investment opportunities are allocated using certain factors such as risk factors or risk tolerances and/or diversification, Fund investment restrictions, currency or other exposures, current portfolio composition (including current cash available), whether a Fund has an existing investment in a portfolio company, a 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), tax or regulatory restrictions applicable to a Fund, the level of transaction costs involved in making the investment relative to the amount of capital a Fund has available for the investment and certain other factors. Notwithstanding the foregoing, in certain circumstances as determined by the Adviser in its sole discretion, Funds that would otherwise receive an allocation under the policies and principles set out above will not receive such allocation if it would result in allocation of a de minimis amount. Moreover (a) Benefit Street, Providence Equity Capital Markets L.L.C. and BDCA Adviser, LLC (together, "Group A"), (b) Merganser Capital Management, LLC ("Group B"), and (c) Providence Equity Partners L.L.C. and the other affiliated advisers (together, "Group C") operate separately with respect to their allocation policies and are subject to certain information wall policies and procedures, such that investment opportunities that Group A, Group B, and Group C sources, respectively, are subject to their own separate allocation policies, procedures and obligations and not the allocation policies, procedures and obligations of (x) Group B or Group C, in the case of Group A and their clients, (y) Group A or Group C, in the case of Group B and their clients, or (z) Group A or Group B, in the case of Group C and their clients.

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. Nevertheless, the Adviser and its affiliates furnish investment management and advisory services to numerous Funds and accounts and the Adviser and its affiliates may, consistent with applicable law, make investment recommendations to other Funds or accounts (including accounts which are private funds or separately managed accounts which have management fees and performance fees or allocations at higher or varying rates paid to the Adviser or one or more of its affiliates, or in which portfolio managers or other personnel of the Adviser have a personal interest in the receipt of such fees or have personal investments), which may be the same as or different from those made to a particular Fund and may cause conflicts of interest in the allocation of investment opportunities. In addition, conflicts of interest or legal or regulatory requirements, including those related to the Investment Company Act, applicable to certain Funds may result in the Adviser and its affiliates limiting a Fund's or client's participation (or the Fund or client being unable to participate) in certain attractive investment opportunities. See Item 6. "Performance-Based Fees and Side-By-Side Management" and "Conflicts Related to Purchases and Sales" above for more information."

The Adviser will determine if the amount of an investment opportunity exceeds the amount the Adviser determines would be appropriate for the Funds (after taking into account any portion

of the opportunity allocated by contract to certain participants in the applicable deal, such as co-sponsors, consultants and advisers to the Adviser and/or the Funds or management teams of the applicable portfolio company, certain strategic investors and other investors whose allocation is determined by the Adviser to be in the best interest of the applicable Fund), and any such excess may be offered to one or more co-investors pursuant to the procedures included in such Funds' organizational documents/side letter agreements.

Subject to any restrictions contained in the offering or organizational documents of a Fund and any agreement which the Adviser, in its sole discretion, may enter into with any investor or potential investor, in general, (i) no investor in a Fund has a right to participate in any co-investment opportunity, (ii) decisions regarding whether and to whom to offer co-investment opportunities are made in the sole discretion of the Adviser or its related persons considering such factors as the Adviser may consider relevant, (iii) co-investment opportunities are typically offered to some and not other investors in the Funds, in the sole discretion of the Adviser or its related persons, which may include affiliates of or investors in the Adviser and its related persons, and investors may be offered a smaller amount of co-investment opportunities than originally requested, (iv) certain persons other than investors in the Funds (e.g., third parties) may be offered co-investment opportunities, in the sole discretion of the Adviser or its related persons, and (v) co-investors may purchase their interests in a portfolio company at the same time as the Funds or may purchase their interests from the applicable Funds after such Funds have consummated their investment in the portfolio company (also known as a post-closing sell down or transfer). Certain Funds sell down an interest in their portfolio companies to co-investors. Subject to the applicable organizational documents, the Adviser may decide to charge (or may decide not to charge) a co-investor (such as a Fund investor or third party) interest costs for the time period between the closing of the applicable Fund's investment in a portfolio company to the date of the transfer of interests in such portfolio company to the applicable co-investor. In certain circumstances, the Adviser may receive compensation from a third party for a co-investment opportunity. Additionally, non-binding acknowledgements of interest in co-investment opportunities are not investment allocation requirements and do not require the Adviser to notify the recipients of such acknowledgements if there is a co-investment opportunity.

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 expects in the future to 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 it expects to establish in the future. Conflicts of interest may arise in

allocating time, services or functions of these employees among Funds and funds managed by the Adviser's affiliates. See also the Adviser's response to the section entitled "Other Conflicts" below, which describes other activities undertaken by employees of the Adviser.

Follow-on Investments

An additional investment made by a Fund in an existing portfolio company presents a conflict 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; Advisory Committee Rights

The Adviser enters into side letter arrangements with certain investors in certain of the Funds providing such investors with different or preferential rights or terms, including but not limited to (i) different or preferential fee structures, (ii) other preferential economic rights, (iii) information and reporting rights, (iv) excuse or exclusion rights, (v) waiver of certain confidentiality provisions, (vi) co-investment rights, (vii) liquidity or transfer rights, (viii) certain rights or terms necessary in light of particular legal, (ix) regulatory or policy requirements of a particular investor, (x) additional obligations and restrictions with respect to structuring particular investments in light of the legal and regulatory considerations applicable to a particular investor and (xi) veto rights. Except as otherwise agreed with an investor, the Adviser (or applicable General Partner) is not required to disclose the terms of side letter arrangements to other investors in the same Fund.

Many of the Funds have established an advisory committee, consisting of representatives of investors. A conflict of interest may exist when some, but not all limited partners are permitted to designate a member to the advisory committee. The advisory committee may also have the ability to approve conflicts of interests with respect to the Adviser and the applicable Fund, which could be disadvantageous to the investors, including those investors who do not designate a member to the advisory committee.

Advisory Affiliates

Benefit Street is affiliated with Providence Equity Partners L.L.C., Providence Equity Capital Markets L.L.C., Merganser Capital Management, LLC, and BCDA Adviser, 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., Merganser Capital Management, LLC and BDCA Adviser, LLC and their relying advisers generally focus primarily on different investment strategies than the Adviser. However, clients of the Adviser, Providence Equity Partners L.L.C., Providence Equity Capital Markets L.L.C., Merganser Capital Management, LLC and BDCA Adviser, 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 the Adviser's clients may therefore conflict with the interests of Providence Equity Partners L.L.C.'s, Providence Equity Capital Markets L.L.C.'s, Merganser Capital Management, LLC's and BDCA Adviser, 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. Other than Providence Equity Partners L.L.C., Providence Strategic Growth Capital Partners L.L.C., Providence Equity Capital Markets L.L.C., Merganser Capital Management, LLC, and BDCA Adviser, LLC, 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 certain of the Funds is based on the performance of the Funds also creates 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 is tempered somewhat by loss carry forward provisions with respect to the Adviser's receipt of Incentive Allocation from certain of the Funds.

Fund Level Borrowing

The Funds from time-to-time borrow funds or enter into other financing arrangements for various reasons, including to pay fund expenses, to pay management fees, to make or facilitate new or follow-on investments, to make payments under hedging transactions, to cover any shortfall resulting from an investor's default or exclusion or to fund capital contributions at the closing of an investment. If a Fund borrows in lieu of calling capital to fund the acquisition of an investment, the borrowing would be used for all limited partners in such Fund on a pro-rata basis, including the general partner. In addition, fund facilities for certain Funds are available to provide borrowed funds directly to the portfolio companies of such Funds, in which case such borrowed funds would be guaranteed by such Funds.

Although borrowings by a Fund has the potential to enhance overall returns that exceed such Fund's cost of funds, such borrowings increase the potential exposure of such Fund to a particular investment above the level that a Fund would typically have had an investment been limited to equity. Any such borrowings will further diminish returns (or increase losses on capital) to the extent overall returns are less than a Fund's cost of funds. In addition, borrowings by a Fund are secured by capital commitments made by Fund investors to such Fund as well as by a Fund's assets and the documentation relating to such borrowings provides that during the continuance of a default under such borrowings, the interests of the investors

may be subordinated to such Fund-level borrowing. Moreover, tax-exempt investors should note that the use of leverage by a Fund may cause the realization of “unrelated business taxable income.” To the extent a Fund uses borrowed funds in advance or in lieu of capital contributions or a portfolio company borrows funds directly through such Fund facility, such Fund’s investors generally make correspondingly later capital contributions. As a result, a Fund’s use of borrowed funds will impact the calculation of net performance metrics (to the extent that they measure investor cash flows) and may make net IRR calculations higher than it otherwise would be without fund-level borrowing and can impact the carried interest a Fund’s general partner receives, as these calculations generally depend on the amount and timing of capital contributions as well as the level of the organizational structure at which such borrowed funds are borrowed or deployed. In addition, where a portfolio company borrows funds directly through a Fund facility, the applicable Funds may charge the portfolio company borrower higher interest rates than the interest rate such Funds pay pursuant to such financing facility, among other things, to help offset origination and other facility costs.

Transactions with Affiliates

Conflicts may also arise in connection with loans or other assets originated by one Fund and sold to another Fund. It may be difficult to determine the value of the loans or other assets transferred to the buying Fund and hence the consideration due to the selling Fund whenever the buying Fund may buy the loans or other assets. The valuation of loans or other assets that may be transferred between Funds involves inherent conflicts of interest for the Adviser and there is no guarantee that the Adviser will resolve these conflicts in a manner that will not have an adverse effect on a Fund. Additionally, a selling Fund may not offer all originated loans to a buying Fund and a buying Fund may not accept all such loans that are offered.

Additional conflicts could also arise with respect to the investment of a Fund in CLOs of financing vehicles formed by the Adviser or its affiliates. Investing in CLOs or financing vehicles sponsored by the Adviser or its affiliates would result in certain conflicts, including that the Adviser may have an interest in causing a Fund to provide financing for a CLO or financing vehicle to support its business or financial interests in causing the formation or closing of a CLO. Furthermore, Fund investors should not expect the Adviser to have better information with respect to Adviser-affiliated investments than other investors have. Even if the Adviser has such information, it may not be permitted to act upon it in a manner that disadvantages the other investors in such funds. Other clients, or employees of the Adviser or its affiliates may be invested in different tranches or the same tranches of such CLOs as a Fund or may invest in financing arrangements or “warehouses” with respect to such a CLO investment or vice versa. Such arrangements would cause conflicts related to a Fund’s investment. Please see Item 8 above for more information.

Other Conflicts

The organizational documents of a Fund establish complex arrangements among the Funds, the Adviser, investors, and other relevant parties. From time to time, questions may arise regarding certain parties’ rights and obligations in certain situations, some of which may not have been contemplated upon the negotiation and execution of such documents. In some instances, the operative provisions of the organizational documents of a Fund, if any, may be

broad, unclear, general, conflicting, ambiguous, and vague and may allow for multiple reasonable interpretations. In other instances, there may not be a directly applicable provision. While the Adviser will construe the relevant provisions in good faith and in a manner consistent with its fiduciary duty and legal obligations, the interpretations used may not be the most favorable to a Fund or its investors.

The Adviser, its affiliates and the Funds will often 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. Additionally, the Adviser, its affiliates and the Funds and the portfolio companies may engage other common service providers. In such circumstances, there may be a conflict of interest between the Adviser, on the one hand, and the Funds and portfolio companies, on the other hand, in determining whether to engage such service providers, including the possibility that the Adviser may favor the engagement or continued engagement of such persons if it receives a benefit from such service providers, such as lower fees, that it would not receive absent the engagement of such service provider by the Funds and/or the portfolio companies.

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 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 publicly traded 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 publicly traded 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 publicly traded 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 publicly traded 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 strives to optimize the portfolio based on changes in market conditions and underlying company fundamentals. Ongoing, collaborative industry and sector reviews are generally conducted by the Adviser. In addition, in the case of certain investments, 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 certain of the Funds on a regular basis. In addition, the Adviser generally provides annual audited reports to the investors in certain of the Funds, which such reports are generally in writing.

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 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 from time to time it engages 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 the Adviser's proxy voting policies and procedures and relevant proxy logs are available to any client or prospective client by calling Mr. Alexander 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 4920, 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.