

# **ALCENTRA LIMITED**

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## **Form ADV Part 2 (as of APRIL 1<sup>st</sup> 2015)**

This brochure provides information about the qualifications and business practices of Alcentra Limited, a registered investment adviser. Registration does not imply a certain level of skill or training. If you have any questions about the contents of this brochure, please contact us at 44 207 367 5000 or visit us at [www.alcentra.com](http://www.alcentra.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

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

**Item 2. Summary of Material Changes**

The following is a summary of our material changes made to our Brochure since our last update on July 21, 2014.

Various sections have been updated to reflect that Alcentra now manages Multi Credit Strategies

Additionally, Item 9 has been updated to reflect that BNY Mellon has announced that it has resolved substantially all of the foreign exchange ("FX")-related actions currently pending. Alcentra Limited was not a defendant in any of the complaints or actions described Item 9.

**Item 3. Table of Contents**

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**Item 4. Advisory Business**

Alcentra Limited (the "Firm" or "We" or "Us") is a private company limited by shares and incorporated in England and Wales. The Firm has been providing investment advisory services since July 2002.

In 2010, we acquired the rights to manage Silver Birch CLO I B.V. from West LB AG, London Branch. The Bank of New York Mellon Corporation ("BNY Mellon") owns 100% of our parent holding company, BNY Alcentra Group Holdings, Inc. ("Group Holdings"). Alcentra Limited and Alcentra NY are subsidiaries of Group Holdings. We provide discretionary investment advisory services to individual institutional investors in the form of separate accounts, pooled investment vehicles (private funds) that are exempt from registration in the United States, and to other investment advisers through subadvisory agreements. Our business is not limited to US clients and US operations but is also subject to foreign registration and regulation by the United Kingdom Financial Conduct Authority.

- We focus on the sub-investment grade debt capital markets. Our employees are primarily organized in the following teams: Credit Analysts, Finance, Risk and Compliance, Transaction Management, and Business Development. These teams support the CLO, Mezzanine, Direct Lending, Special Situations, High Yield and Structured Credit strategies of the Firm. *See Item 8 below.*
- Our clients are typically private funds but also include some separately managed accounts, whose investors include a variety of institutions ("Professional Clients"). These funds include collateralized loan obligation ("CLOs"), private loan funds, direct lending funds and mezzanine debt funds. Alcentra also provides services to a German Investment Company and a portfolio series of a Delaware statutory trust under a sub advisory agreement with the Bank of New York Mellon. Alcentra provides discretionary investment services to private funds with multi-credit strategies. These private funds will generally be divided into sleeves for each of the underlying strategies. Portfolio management for specific sleeves may be delegated from our affiliate, Alcentra NY LLC, under a sub advisory agreement. *See Item 7 below.*
- For our separately managed accounts, We offer investment advisory services tailored to meet clients' individual investment goals. We work with clients to create investment guidelines mutually acceptable to the client and the Firm. When creating investment guidelines, clients may impose investment restrictions in certain individual securities or types of securities. Clients who impose investment restrictions might limit our ability to employ the strategy resulting in investment performance that differs from that of other client accounts.
- We also offer investment advisory services to private funds. Each private fund has an investment objective and a set of investment policies and/or guidelines that we must follow. For this reason, we cannot tailor the investment advisory services we provide to pooled investment vehicles to meet individual investor needs. In addition, we cannot impose individual investment restrictions on our investment strategies for underlying investors in the private funds.
- The Firm also shares research and other services with our affiliate Alcentra NY LLC ("Alcentra NY") through a service agreement. In addition, We serve as sub-adviser to a number of private funds which are advised by Alcentra NY through a separate sub-advisory agreement. *See Item 10 below.*
- On the 8th December 2014 the Structured Credit team of Meriten Investment Management was integrated in the Structured Credit Team of Alcentra Limited. Alcentra

Limited established a branch in Germany where the employees are located. Alcentra entered into outsourcing agreements for 7 funds with an AuM of €97m and into Advisory agreements for 2 mandates with an AuM of €303m. We manage \$ 12.7 Billion on a discretionary basis as of 31st December 2014.

We offer investment advisory services tailored to meet clients' individual investment goals. We work with clients to create investment guidelines mutually acceptable to the client and the Firm. When creating investment guidelines, clients may impose investment restrictions in certain individual securities or types of securities. The strategies in which we may invest client assets and the fees we may receive for managing such strategies are described below.

We offer investment advisory services in the form of pooled investment vehicles or "funds". Each pooled investment vehicle has an investment objective and a set of investment policies and/or guidelines that we must follow. For this reason, we cannot tailor the investment advisory services we provide to our funds to meet individual investor needs. In addition, we cannot impose individual investment restrictions on our investment strategies for underlying investors in the pooled investment vehicles.

**Item 5. Fees and Compensation**

We are compensated for our advisory services by earning management fees and in some instances performance fees from our clients. We will generally describe our management fees below. *Please see Item 6 for a discussion of our performance fees.* Investors in our private funds should refer to the applicable fund's offering materials for a complete description of our fees.

Generally, our fees are dependent on the strategy that your account follows.

**Separate Account Fees:**

We provide investment advisory services to separate account clients for a fee. This fee is typically charged as a percentage of an account's assets under our management. While this fee is typically expressed as an annual percentage, it is calculated based on the average market value of the account's portfolio held during the quarter. Fees are billed on a quarterly basis in arrears. A client's investment advisory agreement will provide further information on how we charge and collect fees.

**A representative fee based on the type of strategy is as follows:**

A management fee shall be paid to the Firm on a quarterly basis in arrears. Such fee shall be in an amount equal to 0.65% of the net asset value of the portfolio annually.

We reserve the right, in our sole discretion, to negotiate or modify (either up or down) the basic fee schedule set forth above for any client due to a variety of factors, including but not limited to: the level of reporting and administrative operations required to service an account, the investment strategy or style, the number of portfolios or accounts involved, and/or the number and types of services provided to the client. Because our fees are negotiable, the actual fee paid by any client or group of clients may be different from the fees reflected in our representative fee set forth above. We may require the inclusion of a performance fee in the investment advisory agreement in addition to the asset based management fee for our separate account clients. *Please see Item 6 below for more information on our performance fees*

**Private Fund Fees****European Leveraged Loan Strategy:**

We serve as collateral manager for certain cashflow CLOs and earn management fees which are determined mainly by the assets under management of each CLO and are based on the current outstanding aggregate collateral balance (being the nominal face amount of the assets and cash) of the CLOs. The management fees consist of senior management fees and subordinated management fees. The senior management fee has a higher priority in a CLO payment waterfall whereas the subordinated management fee generally ranks below principal and interest payments to senior note holders in the payment waterfall. Also, to earn the subordinated management fee, over-collateralization and interest coverage tests must be passing on the relevant determination date for all senior CLO note holders. The sum of the senior and subordinated management fees we earn from advising cash flow CLOs generally ranges from 20 to 65 basis points annually and are paid either semi annually or quarterly in arrears. Please consult the offering materials of each CLO for further details.

**Special Situations Strategy**

The fees for the Alcentra Special Situations Fund consist of management fees ranging from 0-% to 2% depending on the specific class of shares invested in and performance fees ranging from 0% of 20%. One specific class of shares has a performance fee hurdle.

#### European Loan Strategy

The management fee for the Alcentra European Loan Strategy charges management fees ranging from 0% to 45% and performance fees of 10% on specific classes of shares. Certain classes of shares have a performance fee hurdle

#### Structured Credit Strategy

Alcentra Structured Credit Opportunity Strategy/Fund charges management fees ranging from 0% to 1.5% and performance fees of 15% on specific classes of shares.

Alcentra Structured Credit Opportunity Strategy/Fund II charges management fees ranging from 0% to 1.5% and performance fees of 20% on specific classes of shares.

#### European Mezzanine Funds:

Alcentra Limited acts as investment adviser to The Alcentra Mezzanine Fund I and The Alcentra Mezzanine Fund II and serves as sub-adviser to the Alcentra Mezzanine QPAM Fund. These funds are focused on mezzanine and mezzanine related investments in high quality middle market and selected larger end sponsored and unsponsored Leverage Buyout ("LBO") transactions in Europe.

We generally charge annualized management fees of 1.50% based on aggregate commitments of capital made by limited partners of such funds during the funds' investment periods and thereafter on funded commitments, subject to other limitations as provided in the funds' offering materials. Management fees are charged in advance on a quarterly basis.

#### Allocation of General Partner's Profit Share:

During the investment period, the General Partner receives an amount equal to an annual rate of:

- (i) 1.5% of the commitment of the underlying investor; plus
- (ii) 1% of the amount by which that investor's acquisition cost of all unrealised investments exceeds their commitment; plus
- (iii) 0.1% of the interest costs of the fund on the principal amount outstanding under the fund's leverage facility

Direct Lending Funds: Alcentra acts as investment adviser to UK Direct Lending Fund and European Direct Lending Fund.

#### Allocation of General Partner's Profit Share: \_\_\_\_\_

The General Partner will be allocated a profit share out of amounts otherwise allocated to each Fund Investor equal to 1.25% per annum of that Fund Investor's share of the acquisition costs of Investments that have not been realised or fully and permanently written, provided that the

1.25% annual rate referred to above will be reduced to 1% for a Fund Investor which makes a Fund Commitment of €75m or US\$100m or more, with effect from the date on which such threshold is met.

In addition, the annual % rates referred to above will be further reduced by 0.25 % points for a Fund Commitment made by a Fund Investor at first Closing (so that, for the avoidance of doubt, the annual rate shall be 0.75% for a Fund Investor which makes a €75m or US\$100m Fund Commitment at the first closing.

The fees of the Manager, Alcentra Limited is borne by the General Partner.

Alcentra serves as investment adviser for BNY Multi-Strategy funds, which principally invest in our European Loan, Structured Credit, Special Situations and Direct Lending strategies. The multi-strategy funds do not separately charge investors management fees. Investors pay performance fees at the relevant fee rate of the strategy.

#### Multi Credit Strategy

For multi-credit and other accounts, we generally charge a management fee ranging from 10 basis points to 100 basis points payable on a monthly or quarterly basis in arrears. To the extent Alcentra NY LLC provides Subadvisory services to these accounts, Alcentra NY pays Alcentra Limited for subadvisory services it provides. A management fee is typically not charged on investments made in other funds managed by Alcentra or its affiliates in order to prevent a layering of fees. The respective fund offering materials describe the respective fund fee structures in more detail. Please consult these materials for further fee details

For the portfolio series of the Delaware statutory trust for which we serve as sub-adviser, the fund pays a management fee equal to 1.1% annually, payable quarterly on the first calendar day of each quarter (prior to any distributions to investors) based on the NAV of each investor's units. Custody and Administrative Fees are deducted from the management fee. BNY Mellon as Trustee and Adviser to the Fund receives 5% of the remaining management fee and we receive 95%. If, in any performance period, the NAV of a series of units equals or exceeds a set threshold amount, we receive an incentive fee for such series equal to 10% of the amount, if any, by which the NAV exceeds the threshold amount.

#### General Fee Information for All Clients:

Should our management services be terminated prior to the actual provision of services for the upcoming period, we will return management fees pro-rata from the date of our termination to the end of the period to which the advance fee covered. Other non-management fees may be assessed, either at the fund or portfolio company level, which include without limitation monitoring fees, transaction fees, break-up fees and directors' fees. The funds' offering materials describe the funds' fee structure and use of such fees. Please consult these materials for further fee details.

In addition, each of the private funds or separate accounts we manage may also be subject to additional charges such as custody, brokerage and other transaction costs, administrative, fund directors fees and other expenses. Fees are not generally negotiable, though they may be waived or deferred at the discretion of the private fund in accordance with the fund's offering



materials. Such waivers and deferrals will cause some clients or groups of clients to pay fees that are different from the basic fee schedules disclosed in fund offering materials. Please see the applicable private fund's offering materials for further information regarding fees.

As stated above, most of the private funds charge performance fees. *Please see Item 6 below for more information on our fund performance fees. Please see Item 12 of this brochure for more information on brokerage.* Certain private funds may invest in pooled investment vehicles (e.g. our Structured Credit strategies can invest in CLO notes) that they themselves bear advisory fees and operational expenses such as advisory, transfer agent, distribution, shareholder servicing, networking and recordkeeping fees. The private funds will indirectly bear these fees and expenses as an investor in such pooled investment vehicles and, as a result, the private fund will bear higher expenses than if it invested directly in the securities held by the pooled investment vehicle.

We do not charge or receive compensation in connection with the sale of investment products. However, certain employees of our affiliates can accept compensation (also referred to as "commissions") for the sale of securities, private funds or other investment products that we manage. Currently we have no plans for our employees or supervised persons to accept compensation for the sale of private funds that we manage. Accepting commissions for the sale of such investment products gives rise to a conflict of interest in that it may give our employees an incentive to recommend investment products based on the compensation they will receive, rather than solely on a client's needs.

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

Advisers are subject to certain fiduciary standards under federal law and owe clients an affirmative duty of utmost good faith to act solely in the best interests of the client and to make full and fair disclosure of all material facts, particularly where the adviser's interests may conflict with the client's best interest. In this section, we describe our performance based fee arrangements and our side-by-side management activities and the inherent conflicts in such arrangements.

We have entered into performance-based fee arrangements with some of our clients, in addition to the fees described in Section 5 above. In general, our performance fee is based on the portfolio's gross return in excess of a high water mark, specified benchmark, hurdle rate or preferred return during a designated period of time. However, variations exist depending on, among other things, the strategy followed.

The CLOs we manage may pay a performance fee if specified internal rates of return are achieved. These amounts, if earned, are typically paid at the end of the life of the CLO.

Investors in the private funds managed by European Mezzanine and Direct Lending Team pay a share of the profits of the funds' investments, called "carried interest", typically up to 20 percent. The remaining 80 percent of the funds' profits is paid to the funds' investors. Under this strategy a hurdle rate or preferred return, typically 8 percent, must be achieved before we can receive any carried interest payments. For more detailed information on how performance fees are calculated for our funds under this strategy please refer to the offering documents of such funds.

Investors in the private funds managed by the Structured Credit team, in addition to an annual management fee, pay a carried interest, typically 15%-20% over a high water mark during a designated period of time. The high water mark keeps track of the highest level of performance on which carried interest has been paid and which must be exceeded in order for an additional carried interest to be assessed. For more detailed information on how carried interest is calculated, please refer to the offering documents of such funds.

Investors in the private fund managed by the Global Special Situations team, in addition to an annual management fee, may, in certain share classes, be subject to an annual performance fee equal to 20% of any increase in the aggregate net asset value of the relevant class of shares (including net realized and unrealized gains and net investment income) over the highest net asset value per share of the relevant class as at the end of the prior calculation period. For more detailed information, please refer to the offering documents of the fund.

For the portfolio series of the Delaware statutory trust for which we serve as sub-adviser If, in any performance period, the NAV of a series of units equals or exceeds a set threshold amount, we receive an incentive fee for such series equal to 10% of the amount, if any, by which the NAV exceeds the threshold amount.

For some of our multi-credit and other accounts, we charge a performance fee that is typically earned if a specified return is earned and may be subject to a high water mark. Performance fees generally range from 10%-15% and are payable on a quarterly or annual basis in arrears. A portion of the performance fee may be shared with Alcentra NY LLC on accounts for which we provide subadvisory services. For investments made in other funds managed by Alcentra or its

affiliates, a performance fee will not typically be charged on both the fund and the underlying fund in order to prevent a layering of fees. The respective fund offering materials describe the respective fund performance fee structures in more detail. Please consult these materials for further fee details.

"Side-by-side management" refers to our simultaneous management of multiple types of client accounts/investment products. For example, we manage different types of pooled investment vehicles for clients at the same time. In addition, we manage funds and separate accounts with the same strategy. Our clients have a variety of investment objectives, policies, strategies, limitations and restrictions. Our affiliates likewise manage a variety of separate accounts and pooled investment vehicles.

Side-by-side management gives rise to a variety of potential and actual conflicts of interest for us, our employees and our supervised persons. Below we discuss the conflicts that we and our employees and supervised persons face when engaging in side-by-side management and how we deal with them.

Note that we manage our accounts consistent with applicable law, and we follow procedures that are reasonably designed to treat our clients fairly and to prevent any client or group of clients from being systematically favored or disadvantaged. For example, we have Trade Allocation Policies and Procedures which are designed and implemented to ensure that all clients are treated fairly and equally, and to prevent these conflicts from influencing the allocation of investment opportunities among clients. *Please see Item 12 for an explanation of our Trade Allocation Policies and Procedures.*

### **Conflicts of Interest Relating to Performance Based Fees When Engaging in Side-by-Side Management**

We manage accounts that are charged a performance-based fee and other accounts that are charged a different type of fee, such as a flat asset-based fee. We may have a financial incentive to favor accounts with performance-based fees because we (and our employees and supervised persons) may have an opportunity to earn greater fees on such accounts as compared to client accounts without performance-based fees. Thus, we may have an incentive to direct our best investment ideas to client accounts that pay performance-based fees, and to allocate, aggregate or sequence trades in favor of such accounts. We also may have an incentive to give accounts with performance-based fees better execution and better brokerage commissions. *Please see also Item 12.*

### **Conflicts of Interest Relating to Accounts with Different Strategies**

We and our affiliates manage numerous accounts with a variety of strategies, which may present conflicts of interest. For example, a long/short position in two client accounts simultaneously can result in a loss to one client based on a decision to take a gain in the other. Taking concurrent conflicting positions in certain derivative instruments can likewise cause a loss to one client and a gain to another. *Please see also Item 12.*

### **Conflicts of Interest Relating to Investment in Affiliated Accounts**

To the extent permissible under applicable law, we may decide to invest some or all of our temporary investments in money market accounts or funds advised or managed by a BNY Mellon affiliate. In addition, we may invest client accounts in affiliated pooled vehicles. For example, our Structured Credit Strategy may purchase notes of CLOs for which we or one of our affiliates serve as investment manager. We have an incentive to allocate investments to

these types of affiliated accounts in order to generate additional fees for us or our affiliates. *Please see also Item 12.*

### **Conflicts of Interest Relating to “Proprietary Funds”**

We, our affiliates, and our existing and future employees may from time to time manage and/or invest in products managed by the Firm (“Proprietary Funds”). Fees or incentive allocations on such investments as well as minimum investment amounts may be reduced or waived altogether in these instances. Furthermore, we or our affiliates or employees have a managerial interest in various Proprietary Funds as a general or managing partner or have an otherwise financial interest, including but not limited to the receipt of management and/or certain performance based fees. The interests of the Firm, our affiliates and employees may be, at times, significant in such Proprietary Funds. Investment by the Firm, our affiliates, or our employees in Proprietary Funds may create conflicts of interest. We may have an incentive to favor these Proprietary Funds by, for example, directing our best investment ideas to these funds or allocating, aggregating or sequencing trades in favor of such funds, to the disadvantage of other funds. We also may have an incentive to dedicate more time and attention to our Proprietary Funds and to give them better execution and brokerage commissions than our other client accounts. *Please see also Item 12.*

### **Conflicts of Interest - Relating to use of Affiliates as Administrators and Custodians of Funds**

We use affiliate entities as Administrators and Custodians for some of our funds we manage. We could receive superior level of service or inferior and/ or more expensive service than that of an external provider. Information barriers could be breached internally allowing Affiliates access to information about funds and the common parent could use. *Please see also Item 12.*

### **Other Conflicts of Interest**

As noted previously, we and our affiliates manage numerous accounts with a variety of interests. This necessarily creates potential conflicts of interest for us. For example, we or an affiliate may cause multiple accounts to invest in the same investment. Such accounts may have conflicting interests and objectives in connection with such investment, including differing views on the operations or activities of the portfolio company, the targeted returns for the transaction and the timeframe for and method of exiting the investment. Conflicts may also arise in cases where multiple Firm and/or affiliate client accounts are invested in different parts of an issuer’s capital structure. For example, one of our funds could acquire debt obligations of a company while an affiliate’s account acquires an equity investment. In negotiating the terms and conditions of any such investments, we may find that the interests of the debt-holding client accounts and the equity holding client accounts may conflict. If that issuer encounters financial problems, decisions over the terms of the workout could raise conflicts of interest (including, for example, conflicts over proposed waivers and amendments to debt covenants). For example, debt holding accounts may be better served by a liquidation of an issuer in which it could be paid in full, while equity holding accounts might prefer a reorganization of the issuer that would have the potential to retain value for the equity holders. As another example, holders of an issuer’s senior securities may be able to act to direct cash flows away from junior security holders, and both the junior and senior securities may be held in client accounts. Any of the foregoing conflicts of interest will be discussed and resolved on a case-by-case basis by a

committee of the Firm's senior managers. Any such discussions will factor in the interests of the relevant parties and applicable laws. *Please see also Item 12.*

**Item 7. Types of Clients**

Type of Clients: We offer investment advisory services to private funds (including CLOs, , limited partnerships, limited liability companies, and corporations) in addition to separately managed accounts which may include corporate pension and profit sharing plans, public/governmental pension plans, other U.S. and International institutions ("Professional Clients"). Each private fund has an investment objective and a set of investment policies and/or guidelines that we must follow. For this reason, we cannot tailor the investment advisory services we provide to our funds to meet individual investor needs. In addition, we cannot impose individual investment restrictions on our investment strategies for underlying investors in the private funds.

We also offer investment sub-advisory services to our affiliate Alcentra NY for the benefit of a private funds that it manages. Alcentra NY is headquarters in NY and is registered as an investment adviser with the Securities and Exchange Commission. Registration does not imply certain level of skill or training but Alcentra NY has expertise in the U.S. credit market and manages a number of investment vehicles utilizing investment strategies similar to those utilized by the Firm, but generally focusing on U.S. rather than European market.

Account Requirements: Each private fund is required to execute a written agreement with us, granting us authority to manage its assets and setting out minimum and ongoing investment requirements. All such terms are subject to negotiation. Investors in private funds we manage are also subject to minimum and ongoing investment requirements as determined by such funds. Please refer to the offering and subscription documents of such private funds for more specific information.

Account Requirements for Separate Accounts: We require clients to execute a written investment management agreement with us, granting us authority to manage their assets. Generally, client accounts are subject to minimum account sizes in the region of \$50m – \$100m which vary depending upon the strategy of the account .

Account Strategy Minimum Account Size  
European Loan  
Structured Credit  
Global Special Situations  
Direct Lending  
High Yield  
Multi Strategy

We reserve the right to waive the minimum account size requirements.

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

We are credit investors and we invest primarily, on behalf of our clients, in the sub-investment grade credit markets. Our objective is to deliver strong, risk-adjusted returns together with capital preservation. Generally, we seek to meet this objective through intensive fundamental research and credit analysis, combined with active portfolio management to minimize "credit" losses. However, our methods of analysis do vary depending on the type of client and the investment strategy selected.

Each client account typically follows one of and/or combination of the following strategies:

- European Leveraged Loan Strategy
- European Mezzanine Debt Strategy
- Global Special Situations Strategy
- Structured Credit Strategy
- High Yield Strategy
- Direct Lending Strategy
- Multi Credit Strategy

**European Leveraged Loan Strategy**

This strategy invests in leveraged loans typically originated in Europe. European leveraged loans are corporate loans of below investment grade issuers bearing floating interest rates typically based off either the London Interbank Offering rate ("LIBOR") or the European Interbank Offered Rate, a widely used floating rate index. These loans are generally senior secured obligations, which are at or near the top of an issuer's capital structure.

Alcentra's Leveraged Loan Strategy seeks to generate attractive risk adjusted returns by investing in senior secured loans in mostly large, below investment-grade European corporate debt issuers. In addition, the strategy makes selective investments in senior secured and unsecured bonds that offer appealing relative value opportunities. The strategy focuses on investment opportunities in larger capitalization companies typically with annual earnings before interest, taxes, depreciation, and amortization ("EBITDA") of €50 million and greater, with the greater proportion of investments in companies with EBITDA greater than €\$100MM.

The methods of analysis for the European Leveraged Loan Strategy can be divided into three areas: credit analysis, portfolio management and vehicle management:

Credit analysis is performed on the individual investments that comprise a portfolio. Investment evaluation is approached from both a top down industry analysis that includes a review of the current economic outlook, observed default trends in the industry and performance drivers specific to that business and a bottom up review of the operating performance, and risk metrics of each company. The credit analysis process incorporates an analyst's review and screen of the financial fundamentals followed by a quantitative analysis of corporate earnings, cash flow, leverage and more. A qualitative evaluation of product lines, competitive position, management quality and customer base will lead to a presentation to and review by the Firm's credit committee. Generally the credit committee will assess the relative risks and returns and either reject the investment, ask for additional evaluative analysis and information or approve the credit. Typically following an investment, the credit analyst responsible for the transaction will

monitor company and investment performance via discussions and conference calls with management, industry specialists and buy and sell side traders and analysts. The Credit Committee conducts quarterly performance reviews ("QPR") covering recent performance, changes in outlook and projections, price movements and relative values and changes in risk metrics. The reviews and conclusions drawn from the QPRs are incorporated into portfolio and vehicle management strategies.

Portfolio management is undertaken by the portfolio management team in concert with the investment analysts. Portfolio management entails the creation of a portfolio of individual investments in loans or other assets that aggregate into a total that seeks to match the return objectives and risk characteristic of a particular fund. Our management objective is to create a portfolio of solid, performing loans that generate stable cash interest payments quarter after quarter. Since there is limited opportunity for capital appreciation in par loans, emphasis must be placed on risk mitigation. Here, the portfolio management team uses diversification in industry (including the avoidance of certain perceived at-risk industries), size, location and absolute number to help to reduce the impact of any single event. In the CLOs, the number of individual issuers in a portfolio is typically in the region of 50 names.

Vehicle management is a third critical element in investment management. Each client account has its own risk parameters and return objectives. In CLOs and CDOs, additional constraints related to spread, industry diversification, price, average ratings, maturity limits, geographic location and a multitude of other tests and limits requires precision in investment buys and sells. Portfolio managers, along with the analyst team and the operations team, work to monitor the tests and constraints in advance of trade allocations with a view to optimizing the risk adjusted returns for the vehicles. This can often lead to different investment decisions for the same assets among our funds.

#### European Mezzanine Debt Strategy

We provide advisory and sub-advisory services (to our affiliate, Alcentra NY), for private funds which have a European Mezzanine Debt strategy. European mezzanine loans are a hybrid floating-rate loan product filling the funding gap between senior secured debt and equity. They typically share collateral with senior secured lenders, albeit in a junior position. Yield is achieved by a combination of cash-pay coupon, rolled-up interest ('Payment-In-Kind' and usually referred to as PIK) and there may also be equity warrants, to achieve a total return. This strategy also invests in PIK loans outright and co-invests in equity securities depending on Our view of the transaction and overall returns. Since mezzanine is a higher risk product than senior secured loans, We adopt a more conservative approach when assessing potential investments and the hit-rate of investments made versus opportunities analyzed is significantly lower for mezzanine than for senior secured loans. Each transaction will involve the same detailed due diligence undertaken for new senior loans, although final investment selection will require the Firm to place greater focus on the equity story and exit strategy of the financial sponsor as We believe this will greatly impact the final internal rate of return on the investment.

#### Direct Lending Strategy

This strategy seeks to focus on investments in secured loans comprising 1<sup>st</sup> lien senior, uni-tranche, mezzanine and mezzanine related and equity investments in high quality, middle market, sponsored and unsponsored leveraged transactions in Europe for the European Direct Lending fund and in UK for the UK Direct Lending fund.



The funds will target individual transactions with expected gross returns of 6% to 12% per annum for senior and uni-tranche investments and gross returns of 13% to 21% per annum for mezzanine investments with an investment horizon of three to four years. Additional returns can be expected from transactions where the fund will also make equity co-investments. The fund will aim to achieve an allocation of 70% to first lien obligations and 30% to other investments.

#### Investment Process

Alcentra will seek investment opportunities in small and medium sized enterprises that conduct a material part of their business in Europe which have an enterprise value of up to £500 million (or equivalent value in local currency), and that have some or all of the following characteristics: (i) profitable track record; (ii) leading and defensible market position; (iii) stable industry; (iv) cash generative business with historically reliable cash flows; (v) asset coverage; (vi) experienced management team; and (vii) where proceeds are to be used for the purpose of directly financing or indirectly benefitting existing or proposed European operations. Alcentra will target portfolio companies with strong fundamentals and high visibility towards full debt repayment, through obtaining structural seniority, and pursuing comprehensive credit analysis, focusing on cash flow generation and asset coverage. Accordingly, Alcentra will typically seek investments with an underlying equity cushion of 40%-60% of the capital structure. Alcentra will focus its credit analysis on the track record of the company, its market position, management team, its underlying assets, and the jurisdictions in which the operations and the debt are located.

No investments will be made directly in real estate assets, or asset-backed securities.

#### Sourcing

The Investment Adviser will originate opportunities in the European mid-market space through several channels including direct approaches from European corporates, banking and sponsor relationships, and debt advisory firms across Europe. As one of the largest sub-investment grade debt investors, Alcentra has relationships with a broad number of advisory firms.

The team will proactively market the Fund's capabilities directly to businesses through local business networks, local banking relationships, and local accounting and advisory groups.

Credit analysis is primarily undertaken by industry-focused and specialist analysts with in-depth industry knowledge. Analysts rely on extensive proprietary information and industry knowledge gathered from the firm's investments in between 170 and 190 European issuers at any given time, combined with detailed third party due diligence to ensure that the key questions and risks associated with that sector are identified.

The analysts complete an assessment of the likely performance of the company and its markets, the strength of its management and market positions, the security of the investment, alignment of interest with the financial sponsor or owner and their ability to manage the company to a successful exit or through a business cycle. The due diligence process also includes an in-depth analysis of the optimal structure for the investment and documentation in order to obtain adequate risk/return characteristics. The due diligence process consists of three stages: Stage 1- Initial Due Diligence

An Alcentra analyst will prepare an initial report to be submitted to the Investment Committee in order to determine the suitability of the asset for inclusion in the Fund's portfolio

Stage 2- in depth Due Diligence Review

If the General Partner gives its preliminary approval to the potential investment, the responsible analyst will perform (within the parameters set by the General Partner) more in-depth due diligence as needed to confirm or reject the investment,

#### Stage 3-Execution Phase

Once the General Partner has made the final decision to invest, the analyst will continue to work with legal counsel and the General Partner to finalise all loan documentation from a legal and commercial perspective.

#### Global Special Situations Strategy

The Strategy has a mandate to invest on both the long and short side, across the capital structure in a variety of instruments including senior secured and mezzanine debt, common equity (both publicly listed and OTC) as well as high yield bonds and credit default swaps (CDS). High-yield bonds are issued by organizations that do not qualify for "investment-grade" ratings. These assets are generally unsecured, rank behind the senior debt and are mostly issued with a fixed rate coupon. High yield bonds provide a high rate of current income and the potential for capital appreciation. The buying or selling of CDS contracts allow the investor to express a view as to the creditworthiness of the borrower: by entering into such an agreement the risk of default on an obligor's debt securities is transferred from the buyer of the CDS contract to the seller of the swap, as the buyer becomes entitled to the par value of the bond or loan in the event of a default. The use of such contracts provides the Global Special Situations Strategy with the ability to express both a negative view of an obligor's creditworthiness, or alternatively hedge its exposure to risk that it may have on the long side. The investment team actively monitors positions and employs disciplined trading in order to manage its risk.

Each member of the Alcentra Global Special Situations team is responsible for the identification and analysis of potentially attractive investment opportunities. If, following preliminary analysis, it is believed the investment fits the fund risk/reward criteria the team will undertake a more thorough review, incorporating a combination of in-depth fundamental and technical analysis. This analysis will include, but will not be limited to: business and industry analysis; contact with the company and discussions with management; financial modelling of the company's earnings and cash flow; valuation analysis; and legal due diligence associated with the company's finance documentation. All investment proposals are submitted to the Fund's Investment Committee for consideration. This Committee is responsible for the approval of any proposal and as part of this process sets limits according to the maximum exposure the Fund can acquire, whether it be on the long or short side, to any particular security.

#### Structured Credit Strategy

#### Multi Credit Strategy

Alcentra provides discretionary investment services to private funds with multi-credit strategies. These private funds seek to invest in multiple credit strategies and will generally be divided into sleeves for each of the underlying strategies. Portfolio management for specific sleeves may be delegated to our affiliate, Alcentra NY LLC, under a subadvisory agreement.

Alcentra allocates to the sleeves based on its analysis of the relative attractiveness of the underlying strategies and the investment program of the fund. Sleeve allocation determinations are led by the Global Chief Investment Officer and, for some clients, may involve an investment committee. Depending on the investment program of the fund, investments may be made directly into specific assets within the respective strategies and/or into other funds managed by Alcentra or our affiliate, Alcentra NY LLC. Direct investments into specific assets are made using the method of analysis that has been established for the relevant strategy. Alcentra typically re-evaluates its sleeve allocations at least quarterly or more frequently if conditions warrant.

#### Table of Risks

An "X" in the table indicates that the strategy involves the corresponding risk. An empty box indicates that the strategy does not involve the corresponding risk in a material way. **However, an empty box does not guarantee that the strategy will not be subject to the corresponding risk.**

The risks set forth below represent a general summary of the material risks involved in the investment strategies we offer. Following the table we provide a description of each of these risks. In addition, investors in our private funds must also read the "Risk Factors" section in the offering documents for a more detailed discussion of the risks involved in such funds. **In the case of a conflict between these risks and those in the offering documents, the offering documents will control.**

Risk Type	European Leveraged Loan Strategy	Direct Lending	European Mezzanine Debt Strategy	Global Special Situations Strategy	High Yield	Multi-Credit Strategy	Structured Credit Strategy
General Risk	X	X	X	X	X	X	X
Allocation Risk					X	X	X
Asian Emerging Market Risk						X	
Bank Loans and Participations Risk	X					X	X
Banking Industry Risk						X	
Call Risk	X	X	X	X		X	X
Closed-End Investment Companies					X	X	
Convertible Securities Risk					X	X	
Corporate and Other Debt Obligations	X	X	X	X	X	X	X
Counterparty Creditworthiness					X	X	X
Counterparty Risk					X	X	X
Country/Sector Allocation Risk	X	X	X	X	X	X	X
Country,					X	X	X

Industry and Market Sector Risk							
Credit Default Swaps (CDS)					X	X	X
Credit Risk	X	X	X	X	X	X	X
Derivative Risk					X	X	X
Emerging Market Risk – Fixed Income					X	X	
Forward Foreign Currency Exchange Transactions					X	X	X
Foreign Currency Risk					X	X	X
Foreign Government obligations and securities of supranational entities risk					X	X	
Foreign Investment Risk					X	X	X
Futures Contracts					X	X	X
Government Securities Risk					X	X	
Health Care Sector Risk						X	X
High-Yield Bond Risk	X			X	X	X	X
Interest Rate Risk	X	X	X	X	X	X	X
Investment Strategy Risk					X	X	X
Issuer Risk	X	X	X	X	X	X	X
Lender Liability Considerations/ Equitable Subordination	X			X		X	X
Leverage Risk	X	X	X	X	X	X	X
Liquidity Risk	X	X	X	X	X	X	X
Market Risk	X	X	X	X	X	X	X
Market Sector Risk					X	X	X
Micro-Cap Company Risk		X			X	X	X
Midsized Company Risk		X	X		X	X	X
Non-Diversification Risk		X	X				X
Preferred Stock Risk		X	X		X		
Systemic Risk					X	X	
US Government Securities					X	X	
Warrants and Rights Risks		X	X	X			
When Issued					X	X	

and Delayed Securities							
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- *General Risks.* Investing in securities involves risk of loss that you should be prepared to bear. We do not guarantee or represent that our investment program will be successful. Our past results are not necessarily indicative of our future performance and our investment results may vary over time. We cannot assure you that our investments of your money will be profitable, and in fact, you could incur substantial losses. Your investments with us are not a bank deposit and are not insured or guaranteed by the FDIC or any other government agency.
- *Allocation risk.* The asset classes in which the strategy seeks investment exposure can perform differently from each other at any given time (as well as over the long term), so the strategy will be affected by its allocation among the various asset classes. If the strategy favors exposure to an asset class during a period when that class underperforms, performance may be hurt.
- *Asian Emerging Market Risk.* Many Asian economies are characterized by over-extension of credit, frequent currency fluctuations, devaluations and restrictions, rising unemployment, rapid fluctuations in inflation, reliance on exports, and less efficient markets. Currency devaluation in one Asian country can have a significant effect on the entire region. The legal systems in many Asian countries are still developing, making it more difficult to obtain and/or enforce judgments. Furthermore, increased political and social unrest in some Asian countries could cause economic and market uncertainty throughout the region. The auditing and reporting standards in some Asian emerging market countries may not provide the same degree of shareholder/investor protection or information to investors as those in developed countries. In particular, valuation of assets, depreciation, exchange differences, deferred taxation, contingent liability and consolidation may be treated differently than under the auditing and reporting standards of developed countries.
- *Bank Loans and Participations.* Bank loans and derivatives of bank loans and participations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and, (iv) limitations on the ability of the strategy to directly enforce its rights with respect to participations. In analyzing each bank loan assignment or swap, we must compare the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the investors.
- *Banking Industry Risk.* The risks generally associated with concentrating investments in the banking industry, such as interest rate risk, credit risk, and regulatory developments relating to the banking industry.
- *Call Risk.* Some bonds / mezzanine debt instruments (collectively "bonds") give the issuer the option to call, or redeem, the bonds before their maturity date. If an issuer "calls" its bond during a time of declining interest rates, the strategy might have to reinvest the proceeds in an investment offering a lower yield, and therefore might not benefit from any

*increase in value as a result of declining interest rates. During periods of market illiquidity or rising interest rates, prices of "callable" issues are subject to increased price fluctuation.*

- *Closed-end Investment Companies – Valuation Risk. The interests of a closed-end investment company at times trade above (a premium) or below (a discount) the net asset value of such entity's portfolio. At times, discounts could widen or premiums could shrink either diluting positive performance or compounding negative performance. There is no assurance that discounted entities will appreciate to their net asset value.*
- *Convertible Securities Risk. Convertible securities may be converted at either a stated price or stated rate into underlying shares of common stock. Convertible securities generally are subordinated to other similar but non-convertible securities of the same issuer. Although to a lesser extent than with fixed-income securities, the market values of convertible securities tend to decline as interest rates increase. In addition, because of the conversion feature, the market values of convertible securities tend to vary with fluctuations in the market value of the underlying common stock. Although convertible securities are designed to provide for a stable stream of income, they are subject to the risk that their issuers may default on their obligations. Convertible securities also offer the potential for capital appreciation through the conversion feature, although there can be no assurance of capital appreciation because securities prices fluctuate. Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality because of the potential for capital appreciation.*
- *Corporate and Other Debt Obligations. Corporate and other debt obligations, including commercial paper, are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations.*
- *Counterparty Creditworthiness. Under certain conditions, a counterparty to a transaction could default and the market for certain securities or financial instruments in which the counterparty deals may become illiquid.*
- *Counterparty Risk. The risk that a counterparty in a repurchase agreement or other derivative investment could fail to honor the terms of its agreement.*
- *Country Industry and Sector Allocation Risk. While the portfolio managers use the country and sector weightings of the strategy's benchmark index as a guide in structuring the strategy's portfolio, they may overweight or underweight certain countries or sectors relative to the index. This may cause the strategy's performance to be more or less sensitive to developments affecting those countries or sectors.*
- *Country, Industry and Market Sector Risk. The strategy may be overweighted or underweighted, relative to the selected benchmark in companies in certain countries, industries or market sectors, which may cause the strategy's performance to be more or less sensitive to positive or negative developments affecting these countries, industries or sectors. In addition, the strategy can, from time to time, invest a significant portion (more than 25%) of its total assets in securities of companies located in particular countries, such as the United Kingdom and Japan, depending on such country's representation within the client's selected benchmark.*
- *Credit Default Swaps ("CDS"). The "buyer" in a credit default contract is obligated to pay the "seller" a periodic stream of payments over the term of the contract provided that no event of default on an underlying obligation has occurred. If a "credit event" occurs, the seller must pay the buyer the full notional value, or "par value," of the obligation. CDS transactions are either "physical settled" or "cash settled." Physical settlement entails the actual delivery by the buyer of the reference asset to the seller in exchange for the payment of the full par value of the reference asset. Cash settled entails a net cash payment from the seller to the buyer*

*based on the difference of the par value of the reference asset and the current market value of the reference asset. The portfolio may be either the buyer or seller in a CDS transaction. CDS can be used to address the perception of the client that a particular credit, or group of credits, may experience credit improvement or deterioration. In the case of expected credit improvement, the portfolio may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the portfolio to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The portfolio may also buy credit default protection with respect to a reference entity if there is a high likelihood of perceived credit deterioration or for risk management purposes. In such instance, the portfolio will pay a premium regardless of whether there is a credit event. If the portfolio is a buyer and no credit event occurs, the portfolio will have made a series of periodic payments and recover nothing of monetary value. However, if a credit event occurs, the portfolio (if the buyer) will receive the full notional value of the reference obligation either through a cash or physical settlement. As a seller, the portfolio receives a fixed rate of income throughout the term of the contract, which typically is between six months and five years (but may be longer), provided that there is no credit event. CDS transactions involve greater risks than if the portfolio had invested in the reference obligation directly. The CDS market in high yield securities is comparatively new and rapidly evolving compared to the CDS market for more seasoned and liquid investment-grade securities, creating the risk that the newer markets will be less liquid and be difficult to exit or enter into a particular transaction.*

- *Credit Risk. Failure of an issuer to make timely interest or principal payments, or a decline or perception of a decline in the credit quality of a bond can cause a bond's price to fall. See also "High yield bond risk."*
- *Derivatives Risk. A small investment in derivatives could have a potentially large impact on the strategy's performance. The use of derivatives involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid and difficult to value, and there is the risk that changes in the value of a derivative held by the strategy will not correlate with the underlying instruments or the strategy's other investments. Derivative instruments also involve the risk that a loss is sustained as a result of the failure of the counterparty to the derivative instruments to make required payments or otherwise comply with the derivative instruments' terms. Certain types of derivatives involve greater risks than the underlying obligations because, in addition to general market risks, they are subject to illiquidity risk, counterparty risk and credit risk. Additionally, some derivatives involve economic leverage, which could increase the volatility of these investments as they fluctuate in value more than the underlying instrument. See also "Leverage risk."*
- *Emerging Market Risk – Fixed Income. The securities of issuers located in emerging markets tend to be more volatile and less liquid than securities of issuers located in the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. The fixed income securities of issuers located in emerging markets can be more volatile and less liquid than those of issuers in more mature economies. In addition, such securities often are considered to be below investment grade credit quality and predominantly speculative.*
- *Forward Foreign Currency Exchange Transactions. We engage in spot transactions and use forward contracts for investment purposes and to protect against uncertainty in the level of future exchange rates. For example, these portfolios use forward contracts in connection with existing portfolio positions to lock in the U.S. dollar value of those positions, to increase a portfolio's exposure to foreign currencies that rise in value relative to the U.S. dollar or to shift the portfolio's exposure to foreign currency fluctuations from one country to another.*

*The precise matching of the forward contract amounts and the value of the securities involved will not generally be possible because the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date the forward contract is entered into and the date it matures. Accordingly, it may be necessary for a portfolio to purchase additional foreign currency on the spot (that is, cash) market and bear the expense of such purchase if the market value of the security is less than the amount of foreign currency the portfolio is obligated to deliver and if a decision is made to sell the security and make delivery of the foreign currency. Conversely, it may be necessary to sell on the spot market some of the foreign currency received upon the sale of the portfolio security if its market value exceeds the amount of foreign currency the portfolio is obligated to deliver. Per current market convention, Alcentra typically does not employ ISDAs for foreign currency exchange transactions with maturities less than 3 months. In order to minimize risk, we roll these contracts monthly.*

- *Foreign Currency Risk. Investments in foreign currencies are subject to the risk that those currencies will decline in value relative to the U.S. dollar, or in the case of hedged positions, that the U.S. dollar will decline relative to the currency being hedged. Currency exchange rates can fluctuate significantly over short periods of time. A decline in the value of foreign currencies relative to the U.S. dollar will reduce the value of securities held by the strategy and denominated in those currencies. Foreign currencies are also subject to risks caused by inflation, interest rates, budget deficits and low savings rates, political factors and government controls.*
- *Foreign Government Obligations and Securities of Supranational Entities Risk. Investing in the sovereign debt of emerging market countries creates exposure to the direct or indirect consequences of political, social or economic changes in the countries that issue the securities or in which the issuers are located. The ability and willingness of sovereign obligors in emerging market countries or the governmental authorities that control repayment of their debt to pay principal and interest on such debt when due depends on general economic and political conditions within the relevant country. Certain countries in which the strategy may invest have historically experienced, and may continue to experience, high rates of inflation, high interest rates and extreme poverty and unemployment. Some of these countries are also characterized by political uncertainty or instability. Additional factors which influence the ability or willingness to service debt include a country's cash flow situation, the availability of sufficient foreign exchange on the date a payment is due, the relative size of its debt service burden to the economy as a whole and its government's policy towards the International Monetary Fund ("IMF"), the International Bank for Reconstruction and Development ("IBRD") and other international agencies. The ability of a foreign sovereign obligor to make timely payments on its external debt obligations also will be strongly influenced by the obligor's balance of payments, including export performance, its access to international credits and investments, fluctuations in interest rates and the extent of its foreign reserves. A governmental obligor may default on its obligations. Some sovereign obligors in emerging market countries have been among the world's largest debtors to commercial banks, other governments, international financial organizations and other financial institutions. These obligors, in the past, have experienced substantial difficulties in servicing their external debt obligations, which led to defaults on certain obligations and the restructuring of certain indebtedness.*
- *Foreign Investment Risk. Special risks associated with investments in foreign companies include exposure to currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political or economic instability, seizure or nationalization of assets, imposition of taxes or repatriation restrictions and differing auditing and legal standards. The securities of issuers located in emerging markets can be more volatile and less liquid than those of issuers in more mature economies.*



- *Futures Contracts.* Futures contracts generally provide a high degree of liquidity and a low level of counterparty performance and settlement risk. While the use of futures contracts by a portfolio can amplify a gain, it can also amplify a loss. This loss can be substantially more money than the initial margin posted by the portfolio pursuant to the contracts. There is no assurance of market liquidity for futures contracts, whether traded on an exchange or in the over-the-counter market and, as a result, there may be times where a portfolio would not be able to close a future investment position when it wanted to do so. Upon entering into a futures transaction, a portfolio will generally be required to deposit an initial margin payment with the futures commission merchant (the "futures broker"). The initial margin payment will be deposited with a portfolio's custodian in an account registered in the futures broker's name; however, the futures broker can gain access to that account only under specified conditions. As the future is marked-to-market to reflect changes in its market value, subsequent margin payments, called variation margin, will be paid to or by the futures broker on a daily basis. Prior to expiration of the future, if a portfolio elects to close out its position by taking an opposite position, a final determination of variation margin is made, additional cash is required to be paid by or released to the portfolio, and any loss or gain is realized for tax purposes. Position limits also apply to futures traded on an exchange. An exchange can order the liquidation of positions found to be in violation of those limits and may impose certain other sanctions. Initial margin is posted to a collateral pool which may be used to cover third-party liabilities in an event of default by a clearing broker or a major clearing broker's client.
- *Government Securities Risk.* Not all obligations of the U.S. government's agencies and instrumentalities are backed by the full faith and credit of the U.S. Treasury. Some obligations are backed only by the credit of the issuing agency or instrumentality, and in some cases there is some risk of default by the issuer. Any guarantee by the U.S. government or its agencies or instrumentalities of a security held by the strategy does not apply to the market value of such security. A security backed by the U.S. Treasury or the full faith and credit of the United States is guaranteed only as to the timely payment of interest and principal when held to maturity. In addition, because many types of U.S. government securities trade actively outside the United States, their prices rise and fall as changes in global economic conditions affect the demand for these securities.
- *Health Care Sector Risk.* For investments focused in the health care and related sectors, the value of your investment will be affected by factors particular to those sectors and may fluctuate more widely than that of a strategy which invests in a broad range of industries. Health care companies are subject to government regulation and approval of their products and services, which can have a significant effect on their market price. The types of products or services produced or provided by these companies may quickly become obsolete. Moreover, liability for products that are later alleged to be harmful or unsafe can be substantial, and have a significant impact on the health care company's market value and/or share price. Biotechnology and related companies are affected by patent considerations, intense competition, rapid technology change and obsolescence, and regulatory requirements of various federal and state agencies. In addition, some of these companies are relatively small and have thinly traded securities, not yet offer products or offer a single product, and have persistent losses during a product's transition from development to production, or erratic revenue patterns. The stock prices of these companies are very volatile, particularly when their products are up for regulatory approval and/or under regulatory scrutiny.
- *High-Yield Bond Risk.* High yield ("junk") bonds involve greater credit risk, including the risk of default, than investment grade bonds, and are considered predominantly speculative with respect to the issuer's ability to make principal and interest payments. The prices of high-yield bonds can fall dramatically in response to bad news about the issuer, its industry, or the economy in general.

- *Interest Rate Risk.* Prices of debt securities, and particularly fixed rate debt securities, tend to move inversely with changes in interest rates. Typically, a rise in rates will adversely affect the prices of these securities and, accordingly, the value of your investment. The longer the effective maturity and duration of the strategy's portfolio, the more the value of your investment is likely to react to interest rates.
- *Investment strategy risk.* The strategy's sustainability investment criteria may limit the number of investment opportunities available to the strategy, and, as a result, at times the strategy's returns may be lower than those of strategies that are not subject to such special investment considerations.
- *Issuer Risk.* The value of a security or investment may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's products or services.
- *Lender Liability Considerations/Equitable Subordination.* In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, including equitable subordination (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that the institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower. Funds that we manage, as a creditor, may be subject to allegations of lender liability. Furthermore, funds may be unable to control the conduct of the other lenders under a loan syndication agreement requiring less than a unanimous vote, yet funds may be subject to lender liability for such conduct.
- *Leverage Risk.* The companies in which client accounts will invest expect to employ considerable leverage, a significant portion of which may be at floating interest rates. The leveraged capital structure of the companies will increase the sensitivity of client accounts' investments to any deterioration in a company's revenues, condition or industry, competitive pressures, an adverse economic environment or rising interest rates. In the event any such company cannot generate adequate cash flow to meet debt service, client accounts may suffer a partial or total loss of capital invested in the company, which could adversely affect client account returns.
- *Liquidity Risk.* When there is little or no active trading market for specific types of securities or other instruments, it can become more difficult to sell the securities or other instruments at or near their perceived value. In such a market, the value of such securities or other instruments and the value of your investment may fall dramatically, even during periods of declining interest rates. Liquidity risk also exists when a particular derivative instrument is difficult to purchase or sell. If a derivative transaction is particularly large or if the relevant market is illiquid (as is the case with many privately negotiated derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous time or price.
- *Market Risk.* The market value of a security or investment may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. The market value of a security or investment may also decline because of factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry.
- *Market Sector Risk.* A given strategy may significantly overweight or underweight certain companies, industries or market sectors, which may cause the strategy's performance to be more or less sensitive to developments affecting those companies, industries or sectors.

- *Micro-Cap Company Risk.* Micro-Cap stocks may offer greater opportunity for capital appreciation than the stocks of larger and more established companies; however, they also involve substantially greater risks of loss and price fluctuations. Micro-Cap companies carry additional risks because their earnings and revenues tend to be less predictable (and some companies may be experiencing significant losses), and their share prices tend to be more volatile and their markets less liquid than companies with larger market capitalizations. Micro-Cap companies may be newly formed or in the early stages of development, with limited product lines, markets or financial resources, and may lack management depth. In addition, there may be less public information available about these companies. The shares of micro-cap companies tend to trade less frequently than those of larger, more established companies, which can adversely affect the pricing of these securities and the Firm's ability to sell these securities. Also, it may take a long time before the value of your investment realizes a gain, if any, on an investment in a micro-cap company.
- *Midsized Company Risk.* Midsized companies carry additional risks because the operating histories of these companies tend to be more limited, their earnings and revenues less predictable (and some companies may be experiencing significant losses), and their share prices more volatile than those of larger, more established companies.
- *Non-Diversification Risk.* The strategy is non-diversified, which means that the strategy may invest a relatively high percentage of its assets in a limited number of issuers. Therefore, the strategy's performance may be more vulnerable to changes in the market value of a single issuer or group of issuers and more susceptible to risks associated with a single economic, political or regulatory occurrence than a diversified strategy.
- *Preferred Stock Risk.* Preferred stock is a class of a capital stock that typically pays dividends at a specified rate. Preferred stock is generally senior to common stock, but subordinate to debt securities, with respect to the payment of dividends and on liquidation of the issuer.
- *Systemic Risk.* World events and/or the activities of one or more large participants in the financial markets and/or other events or activities of others could result in a temporary systemic breakdown in the normal operation of financial markets. Such events could result in a portfolio losing substantial value caused predominantly by liquidity and counterparty issues which could result in a portfolio incurring substantial losses.
- *U.S. Government Securities.* The strategy may invest in U.S. government securities, including bills, notes, bonds and other debt securities issued by the U.S. Treasury. These instruments are direct obligations of the U.S. government and, as such, are backed by the "full faith and credit" of the United States government. They differ primarily in their interest rates, the lengths of their maturities and the dates of their issuance. Each portfolio may also invest in securities issued by agencies or instrumentalities of the U.S. government. These obligations, including those guaranteed by federal agencies or instrumentalities, may or may not be backed by the "full faith and credit" of the United States government. All of the foregoing are referred to collectively as "U.S. government securities." Securities issued or guaranteed by agencies or instrumentalities are supported by: (i) the full faith and credit of the United States; (ii) the limited authority of the issuer to borrow from the U.S. Treasury; or (iii) the authority of the U.S. government to purchase certain obligations of the issuer. No assurance can be given that the U.S. government will provide financial support to its agencies and instrumentalities as described in (ii) and (iii) above, other than as set forth, since it is not obligated to do so by law. In the case of securities not backed by the full faith and credit of the United States, a portfolio must look principally to the agency issuing or guaranteeing the obligation for ultimate repayment and may not be able to assert a claim against the United States if the agency or instrumentality does not meet its commitments.

- *Warrants and rights risk. Warrants and rights may become worthless if the price of the stock does not rise above the exercise price by the expiration date. This increases the market risks of warrants as compared to the underlying security.*
- *When-Issued and Delayed-Delivery Securities. "When-issued" or "delayed delivery" refers to securities whose terms and indenture are available and for which a market exists, but which are not available for immediate delivery. While the portfolio will purchase securities on a when-issued or delayed-delivery basis only with the intention of acquiring the securities, the portfolio may sell the securities before the settlement date if it is deemed advisable. At the time the portfolio makes the commitment to purchase securities on a when-issued or delayed delivery basis, the portfolio will record the transaction and thereafter reflect the value, each day, of the security in determining the net asset value of the portfolio. When these transactions are negotiated, the price (which is generally expressed in yield terms) is fixed at the time the commitment is made, but delivery and payment for the securities take place at a later date. During the period between commitment by a portfolio and settlement (generally within two months but not to exceed 120 days), no payment is made for the securities purchased by the purchaser, and no interest accrues to the purchaser from the transaction. These securities are subject to market fluctuation, and the value at delivery may be less than the purchase price. A portfolio will engage in when-issued transactions in order to secure what is considered to be an advantageous price and yield at the time of entering into the obligation. When a portfolio engages in when-issued or delayed-delivery transactions, it relies on the buyer or seller, as the case may be, to consummate the transaction. Failure to do so may result in a portfolio losing the opportunity to obtain a price and yield considered to be advantageous. If a portfolio chooses: (i) to dispose of the right to acquire a when-issued security prior to its acquisition; or (ii) to dispose of its right to deliver or receive against a forward commitment; it may incur a gain or loss. To the extent a portfolio engages in when-issued and delayed-delivery transactions, it will do so for the purpose of acquiring or selling securities consistent with its investment objectives and policies and not for the purposes of investment leverage. A portfolio enters into such transactions only with the intention of actually receiving or delivering the securities, although (as noted above) when-issued securities and forward commitments may be sold prior to the settlement date.*

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**Item 9. Disciplinary Information**

Alcentra Limited is not a defendant in any of the complaints or actions described in the following paragraph.

The New York State Attorney General's Offices, the U.S. Attorney's Office for the Southern District of New York and certain other plaintiffs have filed civil complaints against The Bank of New York Mellon (the "Bank") and/or BNY Mellon. BNY Mellon is the parent company of the Bank and Alcentra Limited. These actions allege that the Bank and/or BNY Mellon improperly charged and reported prices for standing instruction foreign exchange ("FX") transactions executed in connection with custody services provided by the Bank. BNY Mellon believes that the claims asserted in the actions are without merit, and reflect a fundamental misunderstanding of the role of custodian banks and the operation of institutional FX markets. BNY Mellon is defending itself vigorously on behalf of its shareholders. Alcentra Limited was not a defendant to any of these actions. On March 19, 2015, BNY Mellon announced that it has resolved substantially all of the foreign exchange ("FX")-related actions currently pending against BNY Mellon, resulting in a total of \$714 million in settlement payments.

**Item 10. Other Financial Industry Activities and Affiliations****Alcentra NY**

Alcentra Limited and Alcentra NY LLC are affiliates and subsidiaries of Alcentra Group Holdings. Alcentra NY provides non-discretionary investment advisory services to Alcentra Limited under a sub-advisory agreement following the Global Special Situations Strategy. Alcentra Limited provides Alcentra NY with sub-advisory services with respect to the European Mezzanine QPAM Fund. In addition, the affiliates provide each other with various research and back office services pursuant to a service agreement.

**BNY Mellon is a Global Financial Services Company**

The Firm is indirectly controlled by BNY Mellon as a result of the merger between The Bank of New York Company, Inc. (Alcentra NY's former ultimate parent company) and Mellon Financial Corporation. The Firm is directly owned by Alcentra Group, which is wholly owned by BNY Mellon.

BNY Mellon is a global financial services company providing a comprehensive array of financial services (including asset management, wealth management, asset servicing, clearing and execution services, issuer services and treasury services) through a world-wide client focused team that enables institutions and individuals to manage and service their financial assets. BNY Mellon Investment Management is the umbrella designation for BNY Mellon's affiliated investment management firms and global distribution companies and is responsible, through various subsidiaries, for U.S. and non-U.S. retail, intermediary and institutional distribution of investment management and related services.

We may enter into transactions with unaffiliated counterparties or third-party service providers who then use affiliates of the Firm to execute such transactions. These services may include, for example, clearance of trades, foreign exchange or other services not contemplated by us. Although one of our affiliates may receive compensation for engaging in these transactions, the decision to use or not use an affiliate of ours is made by the unaffiliated counterparty or third-party service provider. Further, we will likely be unaware that the affiliate is being used to enter into such transaction.

We note that BNY Mellon and/or one of its affiliates serve as trustee and/or custodian to one or more of our clients. BNY Mellon receives compensation for engaging in these services.

BNY Mellon and/or its other affiliates may gather data from us about our investment activities, including information about holdings within client portfolios, which is required for regulatory filings or for other compliance, legal or risk management purposes, pursuant to policies and procedures of BNY Mellon or other affiliates. This data is deemed confidential and solely collected for the purposes intended.

**BNY Mellon's Status as a Bank Holding Company**

BNY Mellon and its direct and indirect subsidiaries, including Alcentra Limited, are subject to certain U.S. banking laws, including the Bank Holding Company Act of 1956, as amended (the "BHCA"), and to regulation and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The BHCA (and other applicable banking laws, and their interpretation and administration by the appropriate regulatory agencies, including but not

limited to the Federal Reserve) may restrict the transactions and relationships among BNY Mellon, its affiliates (including us) and our clients, and may restrict our investments, transactions and operations.

For example, the BHCA regulations applicable to BNY Mellon and us may, among other things, restrict our ability to make certain investments or the size of certain investments, impose a maximum holding period on some or all of our investments, and restrict our ability to participate in the management and operations of the companies in which we invest. In addition, certain BHCA regulations may require aggregation of the positions owned, held or controlled by related entities. Thus, in certain circumstances, positions held by BNY Mellon and its affiliates (including us) for client and proprietary accounts may need to be aggregated and may be subject to a limitation on the amount of a position that may be held. These limitations may have an adverse effect on our ability to manage client investment portfolios. For example, depending on the percentage of a company we and our affiliates (in the aggregate) control at any given time, the limits may: (i) restrict our ability to invest in that company for certain clients; and/or, (ii) require us to sell certain client holdings of that company at a time when it may be undesirable to take such action. Additionally, BNY Mellon may in the future, in its sole discretion and without notice, engage in activities impacting us in order to comply with the BHCA or other legal requirements applicable to (or reduce or eliminate the impact or applicability of any bank regulatory or other restrictions on) us and accounts managed by us and our affiliates.

#### BNY Mellon Referral Incentive Compensation Plan

BNY Mellon has adopted an incentive compensation program ("Program") designed to reward internal referrals of business and opportunities, and:

- 1) Help clients understand and gain access to the full range of products and services offered by BNY Mellon and its subsidiaries; and
- 2) Expand and develop client relationships.

The Program promotes BNY Mellon's corporate values of Client Focus, Integrity, Teamwork and Excellence by encouraging the cross-selling of BNY Mellon's broad array of services and products throughout the organization to better meet a current or prospective client's full range of needs for financial products and services, and to expand customer relationships. The Program seeks to financially reward (via bonus or referral fee) eligible employees who offer a business lead that results in a sale of certain affiliated products or services to existing clients and prospects. These bonuses and referral fees may be paid to us and our employees for referring business (services or products) to our affiliates, and our affiliates and their employees may receive bonuses and referral fees for referring business to us. The bonuses and referral fees may be based on the number of referrals made and/or the revenue generated by the referral. Certain types of regulated entities, employees and referrals may be ineligible for the Program or subject to restrictions under applicable law or internal procedures governing the earning of such rewards. These referral fees and bonuses may create conflicts of interest for us and our employees because we have an incentive to encourage our clients to engage in transactions with our affiliates, based on the compensation that we will receive for these referrals, rather than our clients' needs.

#### Affiliated Placement Agents

We have affiliated "placement agents," including MBSC Securities Corporation, BNY Mellon Asset Management Canada Limited and BNY Mellon Asset Management International Limited,

who can solicit persons to invest in various private funds, including our private funds. Certain private funds have entered into agreements with these placement agents to pay them commissions or fees for such solicitations should such sales activity occur. We or our affiliates are solely responsible for the payment of these commissions and fees - they will not be borne by the private funds and their investors. We or our affiliates will pay these commissions and fees out of our profits, and these payments will not increase the fees paid by the private funds' investors. These financial incentives may cause the placement agents and their employees and/or salespersons to steer investors toward those private funds that will generate higher commissions and fees. *Please see Item 14 for more information on the compensation arrangements related to client referrals.*

Our sales and client service employees are registered representatives of our affiliate, MBSC Securities Corporation, registered investment adviser under the Investment Advisers Act of 1940, as amended, a registered broker-dealer under the Securities Exchange Act of 1934, as amended, and a member of FINRA. In their capacity as registered representatives of MBSC, these employees sell and provide services regarding funds managed by us. There is a financial arrangement in place between us and MBSC

#### Affiliated Service Providers

In addition, to the extent permitted by law, placement agents and their respective affiliates may provide brokerage and certain other financial and securities services to us, our affiliates or related private funds. Such services, if any, will be provided at competitive rates. BNY Mellon is also affiliated with service providers, distributors and consultants that may provide services and may receive fees from BNY Mellon in connection with such services, which may incentivize such persons to distribute interests in a private fund or other BNY Mellon products.

#### Other Relationships

In addition, BNY Mellon personnel, including certain of our employees, may have board, advisory, or other relationships with issuers, distributors, consultants and others that may have investments in a private fund and/or related funds or that may recommend investments in a private fund or distribute interests in a private fund. To the extent permitted by applicable law, BNY Mellon and its affiliates, including us and our personnel, may make charitable contributions to institutions, including those that have relationships with investors or personnel of investors. As a result of the relationships and arrangements described in this paragraph, placement agents, consultants, distributors and other parties may have conflicts associated with their promotion of a private fund, or other dealings with a private fund, that create incentives for them to promote a private fund.

Some of our clients may retain consulting firms to assist them in selecting investment managers. Some consulting firms provide services to both those who hire investment managers and to investment management firms, and we may provide separate advisory services directly or indirectly to employees of such consulting firms. We may pay to attend conferences sponsored by consulting firms and/or purchase services from consulting firms where we believe those services will be useful to us in operating our investment management business. We do not pay referral fees to consultants. However, our clients and prospective clients should be aware that consulting firms might have business relationships with investment management firms that they recommend to their clients.

BNY Mellon maintains, and we have adopted, a Code of Conduct that addresses these types of



relationships and the potential conflicts of interest they may present, including the provision and receipt of gifts and entertainment.

BNY Mellon, among several other leading investment management firms, has a minority equity interest in Luminex Trading and Analytics, LLC ("Luminex"), a registered broker-dealer under the Exchange Act, which was formed for the purpose of establishing and operating a "buy-side" owned and controlled electronic execution utility for trading securities (the "Alternative Trading System"). Transactions for clients for which we serve as adviser or sub-adviser may be executed through the Alternative Trading System. We and BNY Mellon disclaim that either is an affiliate of Luminex.

#### Affiliated Broker-Dealers and Investment Advisers

Through our relationship with BNY Mellon we are affiliated with a significant number of advisers and broker/dealers. Please see Form ADV, Part I - Schedule D, Section 7.A for a list of our affiliated advisers and broker-dealers. While the Firm typically does not execute transactions through affiliated broker-dealers, where we select the broker to effect purchases or sales of securities for client accounts, we may use either an affiliated or unaffiliated broker (unless otherwise restricted by an agreement, law or regulation). We may have an incentive to enter into transactions with an affiliated broker-dealer, in an effort to direct more commission dollars to its affiliate.

We have broker selection policies in place that require our selection of a broker-dealer to be consistent with our duties of best execution, and subject to any client and regulatory proscriptions. *Please see Item 12 for more information on our broker selection process.*

We may be prohibited or limited from effecting transactions for client accounts because of rules in the marketplace, foreign laws or our own policies and procedures. In certain cases, we may face further limitations because of aggregation issues due to our relationship with affiliated investment management firms. *Please also refer to Item 12 for a discussion of trade aggregation matters.*

#### Affiliated Underwriters

Our broker-dealer affiliates occasionally act as underwriter or as a member of the underwriting syndicate for certain new issue securities, which may create an incentive for us to purchase these new issue securities, in an effort to provide additional fees to the broker-dealer affiliate. Currently we don't expect BNY Mellon and/or its broker-dealer affiliates to underwrite or participate as a member of the underwriting syndicate for leveraged loans or other debt instruments, such as high-yield bonds, in which the private funds we manage invest.

BNY Mellon has established a policy regarding purchases of securities in an offering in which an affiliate acts as an underwriter or as a member of the underwriting syndicate. In compliance with applicable banking, securities and ERISA regulations, we may purchase on behalf of our clients securities in an offering in which an affiliate is acting as an underwriter or as a member of the underwriting syndicate during the syndication period, so long as requirements of the policy, including written approval and compliance with certain investment criteria are met. The policy prohibits direct purchases from an affiliate for any fiduciary account under any circumstances.

Affiliated Private Funds and SponsorsAs discussed in Items 4-8 above, we act as investment adviser to various private funds, including certain mezzanine debt & direct lending private funds. Related persons, owned in part by our management persons but ultimately controlled by BNY Mellon, sponsor and/or act as the general partner of such mezzanine& direct lending debt private funds. Please see Form ADV, Part I - Schedule D, Section 7.B for a list of our affiliated private funds and sponsors. Our management persons' relationship to these funds, the affiliated general partner and other affiliates as well as the related conflicts of interest are disclosed to underlying investors before they invest. For example, the general partner receives performance-based compensation (i.e. carried interest) from the mezzanine debt private funds, which may create an incentive for our management persons to recommend investments that are riskier than might otherwise be the case. Also, such management persons may have conflicts of interest in allocating their time and service among such funds, the Firm and certain other BNY Mellon entities. Please see the applicable fund's offering materials for further information regarding such conflicts.

### **Affiliated Banking Institutions**

BNY Mellon engages in trust and investment business through various banking institutions, including the Bank and BNY Mellon, National Association. These affiliated banking institutions may provide certain services to us, such as recordkeeping, accounting, marketing services, and referrals of clients. We may provide the affiliated banking institutions with sales and marketing materials regarding our investment management services that may be distributed under the name of certain marketing "umbrella designations" such as BNY Mellon, BNY Mellon Wealth Management, BNY MAM, and BNY AMI.

We may provide certain investment advice and/or security valuation services to the Bank. We also provide certain investment advisory and trading services to certain Bank clients and separately managed accounts (including separately managed accounts for which the Bank acts as trustee, custodian, or investment manager). Certain of our employees are also officers of the Bank. In their capacity as officers of the Bank, our personnel provide discretionary investment advisory services to certain clients and also to certain collective investment funds of the Bank and we receive a fee for such services. In addition, our primarily institutional and employee benefit and foundation clients and our affiliated employee benefit plan may invest in certain collective investment funds of the Bank.

Certain clients may have established custodial or sub-custodial arrangements with the Bank and other financial institutions that are affiliated with us. Furthermore, the Bank and other financial institutions that are affiliated with us may provide services (such as trustee, custodial or administrative services) to issuers of securities. Because of their affiliation with us, our ability to purchase securities of such issuers and to take advantage of certain market opportunities may be subject to certain restrictions and in some cases, prohibited.

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

We have adopted a Code of Ethics that is made up of three parts:

- 1) BNY Mellon Code of Conduct and Interpretive Guidance (the "BNY Mellon Code");
- 2) BNY Mellon Personal Securities Trading Policy (the "PSTP"); and

The BNY Mellon Code provides to employees the framework and sets the expectations for business conduct. In addition, it clarifies our responsibilities to clients, suppliers, government officials, competitors and the communities we serve and outlines important legal and ethical issues:

- 1) Conflicts of Interest: gifts, entertainment and other payments; personal conflicts of interest; fiduciary appointments and bequests; outside affiliations, outside employment and certain outside compensation issues; and disclosure of relationships and transactions;
- 2) Proper Use and Care of Information and Proper Recordkeeping: proprietary information and intellectual property; data integrity and corporate information; use of e-mail and internet; accurate accounting and internal controls; use of non-public or "inside" information; talking to the media; and document retention;
- 3) Dealing with Customers, Prospects, Suppliers, and Competitors: business relationships with customers, prospects, suppliers, and competitors; business decisions; exploitation of relationships and use of the company's name, letterhead or facilities; knowing your customer; and recognizing and reporting illegal, suspicious, or unusual activities;
- 4) Doing Business With the Government: complying with government contracts, government contracting laws and regulations; integrity in the sales and marketing process; truthful, accurate statements and recordkeeping; safeguarding government information and property; cooperating with government audits and investigations; and meeting employment and labor obligations;
- 5) Personal Finances: personal investments; personal brokerage accounts; political campaign contributions; contributions to not-for-profit entities; and individual employees' regulatory requirements; and
- 6) Compliance with the Law: among other matters illegal or criminal activities; investigations; and protection of company assets.

The PSTP is designed to reinforce our reputation for integrity by avoiding even the appearance of impropriety and to ensure compliance with applicable laws in the conduct of our business. The PSTP sets forth procedures and limitations that govern the personal securities transactions of our employees in accounts held in their own names as well as accounts in which they have indirect ownership. We, and our related persons and employees, may, under certain circumstances and consistent with the PSTP, purchase or sell for their own accounts securities that we also recommend to clients.

The PSTP imposes different requirements and limitations on employees based on the nature of their business activities for the Firm. Each of our employees is classified as one of the following:

- 1) Investment Employee ("IE"): IEs are employees who, as part of their responsibilities, have access to nonpublic information regarding any advisory client's purchase or sale of securities or nonpublic information regarding the portfolio holdings of any Proprietary Account, or are involved in making securities recommendations to advisory clients or have access to such recommendations before they are public.
- 2) Access Decision Maker ("ADM"): ADMs (generally portfolio managers and research analysts who make recommendations or decisions regarding the purchase or sale of equity, convertible debt and non-investment grade debt securities for mutual funds and other managed accounts) are subject to the most extensive procedures under the PSTP.
- 3) Non-Classified Employee ("OE"): Our employees are considered OEs if they are not an IE or ADM.

PSTP Overview:

- 1) IEs and ADMs are subject to preclearance and personal securities reporting requirements, with respect to discretionary accounts in which they have direct or indirect ownership;
- 2) Transaction reporting is not required for non-discretionary accounts, transactions in exempt securities or certain other transactions that are not deemed to present any potential conflicts of interest;
- 3) Preclearance is not required for transactions involving certain exempt securities (such as open-end investment company securities that are not Proprietary Funds or money market funds and short-term instruments); non-financial commodities; transactions in non-discretionary accounts (approved accounts over which the employee has no direct or indirect influence or control over the investment decision-making process); transactions done pursuant to automatic investment plans; and certain other transactions detailed in the PSTP which are either involuntary or deemed not to present any potential conflict of interest;
- 4) We maintain a "restricted list" of companies whose securities are subject to trading restrictions. This list is used to determine whether or not to grant trading authorization. See Section entitled "Material Non-Public Information and Limitations in Securities Transactions" in this Item 11.
- 5) The acquisition of any securities in a private placement requires prior written approvals;
- 6) With respect to transactions involving BNYMC securities, all employees are also prohibited from engaging in short sales, purchases on margin, option transactions (other than employee option plans), and short-term trading (*i.e.*, purchasing and selling or selling and purchasing BNYMC securities within any 60 calendar day period);
- 7) With respect to non-BNYMC securities, purchasing and selling, or selling and purchasing the same or equivalent security within 60 calendar days is discouraged, and any profits must be disgorged; and

- 8) No covered employee should knowingly participate in or facilitate late trading, market timing or any other activity with respect to any fund in violation of applicable law or the provisions of such fund's disclosure documents.
- 9) A copy of our Code of Ethics will be provided upon request.

We have adopted policies supplementing the PSTP, including precluding the Firm's access persons from purchasing any class of security of any issuer in which the Firm holds for client accounts or is under consideration by the Firm within the next seven days.

Due to the nature of the relationship between Alcentra and its affiliates, Alcentra NY LLC and Standish, employees of all three firms (including Alcentra High Yield) will face certain shared personal trading restrictions based on the personal trading restrictions of each of the three firms

### **Material Non-Public Information and Limitations in Securities Transactions**

When providing advisory services focused on sub-investment grade debt, including senior secured, mezzanine and second lien loans, the Firm and Alcentra NY regularly receive information about debt issuers that is not made available to the general public. Certain of this private information may be considered material non-public-information (MNPI). We have implemented policies to prevent the misuse of MNPI. Under no circumstances can our personnel trade public securities on MNPI for their own reportable accounts or those of a fund.

Generally, disclosure of such information is subject to internal limitations to prevent the flow of confidential information between ourselves and our affiliates, except as noted below.

We have put in place a joint policy to address the manner in which the Firm and Alcentra NY handle private information, including MNPI. The policy creates a joint restricted list based on the receipt of private information each firm gets from issuers they follow. Neither the Firm nor Alcentra NY can transact in the public securities of issuers that appear on the joint restricted list.

In the instances where our investment strategies contemplate the purchase and sale of publicly traded securities and the issuer of the relevant securities appear on the joint restricted list, we will be prohibited from purchasing/selling such securities. Therefore we may be restricted from purchasing or selling certain public securities on behalf of client accounts which might negatively affect investment performance.

### **Valuations**

A conflict of interest may arise in the Firm overseeing the valuation of its investments if the Firm charges fees based upon its valuations. We require, to the extent possible, pricing from an independent third party pricing vendor. If vendor pricing is unavailable, We then look to other observable inputs for the valuations. In the event that a vendor price or other observable inputs are unavailable or deemed unreliable, the Firm has established a Pricing Committee to make a reasonable determination of an investment's fair value. We may alter our valuation procedures due to, including without limitation, market events and illiquidity over a sustained period or unreliability of pricing source.

### **Interest in Client Transactions**

Note that while each of the following types of transactions present conflicts of interest for us, as described below, we manage our accounts consistent with applicable law, and we follow procedures that are reasonably designed to treat our clients fairly and to prevent any client or group of clients from being systematically favored or disadvantaged.

**Principal Transactions** – “Principal transactions” are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys any security from or sells any security to any client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated pooled investment vehicle and another client account. While we have, in certain instances, engaged in principal transactions, we generally do not engage in principal transactions. However, subject to the consent requirements under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) and as permitted under applicable law, the Firm may engage in principal transactions.

The Structured Credit strategy may purchase assets from, sell assets to or otherwise engage in transactions with affiliates of the Firm. The strategy is also permitted to invest in entities managed by the Firm and/or its affiliates. These investments may have limited or restricted liquidity. In particular, the Alcentra Structured Credit Opportunity Fund II has made an investment in certain notes issued by Silver Birch CLO I B.V. an investment which was purchased from an affiliate of the Firm. In addition it also purchased the notes of and Jubilee CDO II B.V. from the same affiliate.

**Cross Transactions** – We may direct one private fund to sell securities or instruments to another private fund or an affiliated fund through a cross-transaction in which neither we nor an affiliated person receives compensation. Since the Firm has an incentive to effect cross transactions between funds in order to position profitable trades into higher paying and/or performance fee funds, any such transaction is effected consistent with the funds’ offering materials and our Cross Trading and Best Execution Policies. We generally only effect cross trades in securities or other instruments for which market quotations are readily available though, on occasion, we may effect cross trades in securities or other instruments for which a market quotation is not readily available. In these cases, trades are effected at a price which we have a reasonable basis for believing is fair and equitable to both the buyer and seller, typically the average of the mid of the bid/ask spread obtained from two brokers. In instances where a broker quote is not available, the Firm’s Pricing Committee determines the price. Transaction costs are typically split pro-rata between the participating funds. The Firm considers a variety of factors when determining the appropriateness of a cross transaction which include, but are not limited to, applicable legal rules and regulations, whether the trade is advantageous to both parties, investment objectives and strategies, applicable investment restrictions, appetite for the security, and cash availability.

#### **Other Potential Interests in Client Transactions:**

Common investments do arise in connection with the CDO/CLO funds, the European Mezzanine Debt strategy and the Global Special Situations strategy. Other Alcentra affiliates generally do not make the same investments as the Firm. When the Firm or an affiliate currently holds for our own benefit the same securities as a client, we could be viewed as having a potential conflict of interest. For example, we or our affiliate could be seen as harming the performance of the client’s account for our own benefit if we short-sell the securities in our own account while holding the same securities long in the client account, causing the market value of the

securities to move lower. If our portfolio managers make inconsistent trading decisions, the basis for those decisions must be documented.

### **Transactions in Same Securities**

We or our affiliates may invest in the same securities that we or our affiliates recommend to clients. When we or an affiliate currently holds for our own benefit the same securities as a client, we could be viewed as having a potential conflict of interest. For example, we or our affiliate could be seen as harming the performance of the client's account for our own benefit if we short-sell the securities in our own account while holding the same securities long in the client account, causing the market value of the securities to move lower.

### **Interests in Recommended Securities/Products**

We or our affiliates may recommend securities to clients, or buy or sell securities for client accounts, at or about the same time that we or one of our affiliates buys or sells the same securities for our (or the affiliate's) own account. This practice may give rise to a variety of potential conflicts of interest, particularly with respect to aggregating, allocating and sequencing securities being purchased on both our (or its affiliate's) behalf and our clients' behalf. For example, we could have an incentive to cause a client or clients to participate in an offering because we desire to participate in the offering on our own behalf, and would otherwise be unable to meet the minimum purchase requirements. Likewise, we could have an incentive to cause our clients to participate in an offering to increase our overall allocation of securities in that offering, or to increase our ability to participate in future offerings by the same underwriter or issuer. On the other hand, we could have an incentive to cause our clients to minimize their participation in an offering that has limited availability so that we do not have to share a proportionately greater amount of the offering to the client. Allocations of aggregated trades might likewise raise a potential conflict of interest as we may have an incentive to allocate securities that are expected to increase in value to our self. *See Item 12 for a discussion of our brokerage and allocations practices and policies.* Further, a potential conflict of interest could be viewed as arising if a transaction in our own account closely precedes a transaction in related securities in a client account, such as when a subsequent purchase by a client account increases the value of securities that were previously purchased for our self. Our compliance personnel review periodic transaction reports and holdings reports on our accounts to evaluate the nature of sequenced transactions and to assess potential harm caused by trades in our account to client accounts.

### **Interest in Affiliated Accounts**

To the extent permissible under applicable law, we may decide to invest some or all of our temporary investments in money market accounts advised or managed by a BNY Mellon affiliate. For example, cash remitted into some client accounts due to pay downs or sales of loans may be invested in BNY Mellon overnight deposit products, including affiliated money market funds. In addition, we may invest client accounts in affiliated pooled vehicles. Further, to the extent permissible under applicable law, our strategies, including Structured Credit, may invest in the notes of CLOs that we manage. We have an incentive to allocate investments to these types of affiliated accounts in order to generate additional fees for us or our affiliates.

### **Investments by Related Persons and Employees**

We and our existing and future employees, our board members, and our affiliates and their employees may from time to time invest in products managed by us. We have developed policies

and procedures to address any conflicts of interest created by such investment. We are part of a large diversified financial organization that includes banks and broker-dealers. As a result, it is possible that a related person may, as principal, purchase securities or sell securities for itself that we also recommend to clients. We do permit our employees to invest for their own account within the guidelines and restrictions of the Code of Ethics, as described above. For more information, please see “Interests in Recommended Securities/Products” in this Item 11, and “Dual Officers and Employees” and “Affiliated Underwriters/Trustees” in Item 10 with regard to purchases of securities in an offering where an affiliate acts as underwriter or a member of the underwriting syndicate.

**Agency Transactions Involving Affiliated Brokers**

Neither we nor any of our officers or directors, acting as broker or agent, effects securities transactions for compensation for any client. We are part of a large diversified financial organization that includes broker-dealers. As a result, it is possible that a related person, other than our officers and directors, may, as agent, effect securities transactions for our clients for compensation. Please also see Item 10 and Item 12 for additional information relating to affiliate arrangements and with regard to purchases of securities in an offering where an affiliate acts as underwriter or a member of the underwriting. Please also see Schedule D, Section 7A of our Form ADV Part 1 for a list of broker-dealers which are our affiliates.



**Item 12. Brokerage Practices**

Typically we seek to execute portfolio transactions in a manner designed to obtain the best overall qualitative execution for the private funds under the prevailing circumstances. The funds' offering materials and/or our advisory agreements generally grant the Firm discretion and authority to select broker-dealers and to negotiate spreads and other costs. We typically effect transactions with broker-dealers acting as principals at prices which include markups or markdowns. In addition, the administrative agent of a loan/debt instrument can typically charge an assignment fee for a particular loan.

We have no duty or obligation to seek in advance competitive bidding for the most favorable spreads or transaction costs applicable to any particular fund transaction but will endeavor to be aware of the current level of transaction costs and will seek to minimize the expenses incurred for effecting fund transactions when possible.

On occasion we may execute transactions directly with an issuer without transacting through a broker-dealer/agent bank if it is determined that doing so is in the best interest of the client.

The various Portfolio Managers for each of the Strategies have the authority to direct transactions in securities and other investments on behalf of our clients to brokers-dealers the Firm has selected and approved in accordance with its broker approval process. In doing so, we seek best execution of such transactions. When seeking best execution, we consider the overall costs and proceeds of particular investments, including the price of the security, broker-dealer mark-ups or mark-downs and related transaction costs. Transactions will not always be executed at the lowest available price or transaction cost, but will be within a generally competitive range. Additionally, transactions which involve specialized services on the part of the broker-dealer usually entail higher transaction costs than would be the case with other transactions requiring more routine services or other brokers-dealers that may not offer such products or services.

Considerations include a broker-dealer's specific expertise and/or agent bank status with respect to a particular investment, access to underwritten offerings, execution capabilities including such factors as responsiveness to the Firm and back office settlement capabilities, the ability to generate credit investment ideas and the broker-dealer's financial stability. We often direct transactions to full service broker-dealers that provide research reports, generally on an unsolicited basis. Such broker-dealers may pay for certain ancillary items (i.e. meals) for our investment professionals while attending seminars and other opportunities for education and fostering of business relationships. While we recognize that such activities can create potential conflicts of interest, we seek to minimize these conflicts by, for example, not permitting broker-dealers to pay for our travel and lodging expenses. The Trade Oversight Committee meets periodically to evaluate the execution capabilities of broker-dealers and maintain efforts to seek best execution of client transactions. The Committee also assesses the types of research or other services that are provided (whether solicited or unsolicited) to determine if they are appropriate under the circumstances and if the provision of such research or services appears to have had any effect on the execution quality for client accounts.

**Soft Dollars**

The term "soft dollars" is commonly understood to refer to arrangements where an investment adviser uses client brokerage commissions to pay for research or other services used by the investment adviser. Section 28(e) of the Securities Exchange Act of 1934 provides a "safe harbor" that permits investment advisers to enter into soft dollar arrangements if the

investment adviser determines in good faith that the amount of the commission is reasonable in relation to the value of the brokerage and research services provided.

As a matter of policy, we do not utilize "soft dollar" arrangements, but do receive research of the type that is customarily provided by brokers or dealers to their institutional customers, which may be useful to us in serving the accounts that we advise. Although our receipt of such research services does not reduce our normal independent research activities, it may enable us to avoid the additional expenses that we might otherwise incur if we were to attempt to independently develop comparable information.

#### Trade Aggregation

We manage numerous private funds and accounts with similar investment objectives. Additionally, we manage clients with different objectives that trade in the same investments. Despite such similarities, investment decisions relating to the clients' investments are made independent of each other in light of differing conditions and we will not necessarily purchase or sell securities at the same time or in the same proportionate amounts for all eligible clients. Therefore, not all funds will necessarily participate in the same investment opportunity or participate on the same basis and the performance resulting from such decisions will differ from client to client. However, if the same investment decision is made for two or more clients within or across investment strategies, we will seek to combine such transactions for the same security into a single aggregated order to obtain best execution and/or price for participating clients. Each client who participates in an aggregated order generally receives an average price with all transaction costs shared on a pro-rata basis.

#### Trade Allocation

Clients invest in many of the same loans. The Portfolio Manager seeks to allocate investment opportunities among the clients on a fair and equitable basis over time, taking into consideration each fund's investment restrictions and various other factors as noted below. When allocating investment opportunities the Firm is precluded from favoring any client or set of clients under this strategy over another, considering different fee structures as an incentive in allocating investment opportunities to a client or clients that have the potential to pay a larger fee, or recommending or causing a client to enter into transactions for the purpose of benefiting the direct or indirect securities holdings of the Firm or its affiliates or employees. When allocating investment opportunities the Firm first seeks to ascertain the amount of the asset available while keeping in mind each client's overall investment objective and cash availability. The Firm uses its best judgment as determined by the Firm's portfolio managers in conjunction with the Global Chief Investment Officer, in allocating investments among the clients. The Firm considers a wide range of factors in determining allocations of investments among clients, including, but not limited to, each client's available cash, investment objectives, limitations outlined in each client's offering materials, and certain position considerations such as concentration limitations and round lots. In addition, we give special consideration to our CLOs nearing an upcoming determination date or the end of a reinvestment period, avoiding an event of default, or bringing a client into compliance with Indenture or other restrictions. Allocations among clients are periodically reviewed and monitored on an ongoing basis by the Compliance Officer who reports findings to the Board of the Firm. Such determinations will be maintained in writing by the portfolio managers of the relevant clients. For more information investors should refer to the offering materials of the fund or the client's investment advisory agreement following the relevant strategy.

Compensation for Client Referrals

We do not direct securities transactions to any broker-dealer in exchange for referral of investment management clients.

Affiliated Brokerage

We generally do not execute securities transactions through affiliated broker-dealers.

**Item 13. Review of Accounts****European Leveraged Loan Strategy**

Each fund's investments are frequently reviewed by the assigned portfolio manager and/or the relevant Credit Analyst for the investment. In addition, the investment team and the portfolio administration team meet regularly to review relevant data in order to assess each CLO's compliance with terms established by the indentures. Supplementary in-depth reviews by the portfolio managers may be triggered by market or economic factors, severe deterioration in credit performance, collateral value, cash flow or rating. Trustees or administrators for the CLOs prepare monthly written reports for the Firm and the investors in the vehicles. Reports are distributed directly to the underlying investors in the funds by the Trustee or administrator. In addition the Firm makes the reports available to investors by posting them to the Firm password protected website. We typically prepare a monthly written commentary on overall market conditions for fund investors under this strategy.

**European Mezzanine Capital Strategy**

The European Mezzanine team/and or the relevant credit analyst conducts due diligence on proposed investments and compiles information supporting its analysis for consideration in the first instance by the Alcentra Credit Committee, if the investment opportunity is approved by the committee it is then presented to the fund's independent board for consideration. The independent board of the fund is responsible for approving all investments. The European Mezzanine team is responsible for on-going monitoring based on the information provided by the Credit Analysts. Monitoring of investments is done on a regular basis. Supplementary in-depth reviews by the Credit Analysts may be triggered by market or economic factors, severe deterioration in credit performance, collateral value or cash flow. Annual audited financial statements, as well as unaudited quarterly reports are provided to the funds' investors. The quarterly reports include a summary of fund investments made during the related quarterly period and a statement of each fund investor's consolidated capital accounts at the beginning and end of such quarterly period.

**Direct Lending Strategy**

The Direct Lending Team team/and or the relevant credit analyst conducts due diligence on proposed investments and compiles information supporting its analysis for consideration in the first instance by the Alcentra Credit Committee, if the investment opportunity is approved by the committee it is then presented to the fund's independent board for consideration.

Monitoring is conducted by the credit analyst responsible for the relevant investment. Analysts will screen news services daily for relevant updates on their credits. Typically, Alcentra will receive private, monthly management accounting data from the companies to which it lends. The relevant analyst will track monthly data for each borrower using proprietary systems and standardised monitoring reports. In many cases, analysts will regularly meet key executive management in invested companies. The investment team will meet weekly to discuss developments with the Portfolio companies. All credits will be reviewed in detail by the Investment Committee at quarterly portfolio reviews. Annual audited financial statements, as well as unaudited quarterly reports are provided to the funds' investors. The quarterly reports include a summary of fund investments made during the related quarterly period and a statement of each fund investor's consolidated capital accounts at the beginning and end of such quarterly period.

**Multi-Credit Strategy**

The Firm generally receives and reviews monthly reports on the performance of the multi-credit accounts and their respective underlying investments. Allocations among strategies are determined by the Global Chief Investment Officer in conjunction with any investment

committee or similar decision-making authority that may be established under the respective client's governing documents. Allocations among strategies much be made within the guidelines established for the respective client.

### **Global Special Situations Strategy**

The Special Situations Strategy team is responsible for the ongoing monitoring of any approved investments, continually analyzing and reassessing any changes or developments that may affect the company's financial performance. These may include but will not be limited to: the evolution of the company's earnings and cash flow, industry developments, macroeconomic factors and change in capital structure.

### **High Yield**

Portfolio Manager review their portfolios with the CIO monthly. The review covers performance of each portfolio, attribution of performance, and reasons for any performance dispersion between like strategies. The Portfolio Manager for the strategy provides documentation on those topics and minutes are taken. These meetings are open for any other investment team members and client service personnel.

Alcentra High Yield meets daily to go over current issues, potential strategy shifts, and market changes. Portfolio Managers and Portfolio Analysts for each investment team review all trades for all accounts daily and meet formally on a weekly basis. The Portfolio Manager and Portfolio Analyst for each team reviews daily the fixed income account summary data for each account relating to quality, diversification, duration, and yield curve distribution, which shall be consistent with the current investment policy of High Yield. Such reviews take into account, but are not limited to, computer-generated reports that identify targets, and any dispersion from targets, on sectors, curve, duration, etc. The Portfolio Managers also review performance on a daily basis, for daily, month-to-date, and year-to-date performance. On a regular basis, Portfolio Managers review holdings and themes with other Portfolio Managers and their investment teams. The teams undertake an in-depth, more detailed review when certain rank levels are triggered and during other circumstances, as required.

### **Structured Credit Strategy**

The Portfolio Manager of the Structured Credit team reviews the portfolios on a weekly basis. The Risk Committee has additional oversight and reviews the portfolio holdings and investment guidelines on a monthly basis. When requested to do so, the Portfolio manager provides additional narrative on the portfolio and current market conditions to the committee. The team monitor investments utilizing proprietary internal cashflow models as well as third party systems. The criteria typically includes:

- breakeven default and downgrade rates;
- yield, price and potential investment return;
- weighted average life of investment;
- collateral composition;
- subordination levels;
- liquidity of the investment;
- technical features governing events of default and over-collateralisation tests;
- situation assessment (ratings outlook, current news or outstanding issues, etc.);
- cash flow level, pikability and sustainability.
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Simultaneously, the underlying portfolio is reviewed with primary focus on the following criteria:

- market price of portfolio
- downgrade and default risk for individual credits;
- second lien and mezzanine exposure;
- recovery rate risk;
- structured finance and bond exposure; and
- portfolio industry concentrations.

**Item 14. Client Referrals and Other Compensation****Unaffiliated Solicitors and Placement Agents**

We may hire third parties to solicit new investment advisory clients. The commissions or fees, if any, payable to such solicitors (also referred to as placement agents) with respect to solicitation of investments with the Firm will be paid solely by the Firm. Clients will not pay fees for these solicitations. These solicitors have an incentive for the client to hire us because we will pay the solicitor for the referral. The prospect of receiving solicitation/placement fees may provide such placement agents and/or their salespersons with an incentive to favor these sales over the sale of interests of other investments with respect to which the placement agent does not receive such compensation, or receives lower levels of compensation. In addition, to the extent permitted by law, certain placement agents and their respective affiliates may provide brokerage and certain other financial and securities services to the Firm or our affiliates. Such services, if any, will be provided at competitive rates.

**Affiliated Solicitors and Placement Agents**We may pay referral fees to our affiliates (and/or their employees) for referrals that result in additional investment management business. *Please see the discussion of affiliated placement agents in Item 10, above.*

Our ultimate parent, BNY Mellon, has organized its lines of business into two groups: Investment Management and Investment Services (collectively "Groups"). We are part of the Investment Management Group. A sales force has been created to focus on developing new customer relationships and developing and coordinating large complex existing customer relationships within those Groups.

In certain circumstances, Investment Management sales representatives are paid fees for sales. The fees may be based on revenues and may be a one-time payment or paid out over a number of years. In addition, our sales representatives and sales representatives of our affiliates within the Investment Management Group are paid for intra-Group referrals to Group counterparts. Those fees are based on the first year's revenue for the Group counterpart.

Sales of any alternative investment products (such as private funds) may be made through a broker-dealer affiliate. Only registered representatives of such broker-dealer receive compensation for sales of alternative investments.

We may pay a fee to an affiliate (or directly to employees of the affiliate) that has a pre-existing relationship with a new client in the Investment Services Group. The fees may be based on revenues and may provide for a one-time payment or payments over a number of years.

We and our affiliates also participate in the BNY Mellon Incentive Compensation Plan, which presents certain conflicts of interest, all as described in Item 10, above.  
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**Item 15. Custody**

Rule 206(4)-2 under the Advisers Act (the "Custody Rule") defines "custody" to include a situation in which an adviser or a related person holds, directly or indirectly, client funds or securities or has any authority to obtain possession of them, in connection with advisory services provided by the adviser.

For purposes of the Custody Rule, we are deemed to have "custody" of certain client assets because we may have the ability to deduct fees from client custodial accounts; client funds or securities are held by a related person of Alcentra; or we may serve as general partner/managing member/trustee (or similar capacity) of investment funds organized as limited partnership/limited liability company/trust.

Generally, an adviser that is deemed to have custody of a client's funds or securities, among other things, is required to arrange for an annual independent verification of such funds or securities in accordance with the Custody Rule (the "Surprise Exam Requirement"). However, the Custody Rule contains the following exceptions from the Surprise Exam Requirement:

1. **Ability to Deduct Fees:** advisers deemed to have custody of client assets solely because of their ability to deduct fees from client accounts are not subject to the Surprise Exam Requirement. Alcentra does not deduct fees from client's custodian accounts.
2. **Related Person & Operational Independence:** advisers deemed to have custody of client assets solely because a related person holds client assets will not be subject to the Surprise Exam Requirement, provided the adviser and the related person are "operationally independent." Alcentra will rely upon this exemption to avoid a surprise audit for certain clients. We have determined that our operations are independent from those of the related person holding client assets.
3. **Pooled Investment Vehicles:** advisers who are deemed to have custody of the assets of clients formed as pooled investment vehicles may comply with the rule if the pool has audited financial statements that are prepared in accordance with generally accepted accounting principles and such statements are distributed to investors in the pool within 120 days (or 180 days for funds of funds) of the end of the fiscal year. Alcentra advises certain pooled investment vehicles and intends to cause such pooled investment vehicles to receive and distribute audited financial statements to their investors.

Separate account clients: you will receive from your bank, broker-dealer or other qualified custodian an account statement, at least quarterly, identifying the amount of funds and each security in the account at the end of the period and setting forth all transactions in the account during that period. Please review these statements carefully. You will also receive account statements separately from us. You are strongly urged to compare the account statements you receive from us with those that you receive from your qualified custodian



**Item 16. Investment Discretion**

We typically accept discretionary investment authority over client assets. Clients grant this discretionary authority to us in writing via a contract or through an appointment to become the investment adviser of a private fund. Such discretion is to be exercised in a manner consistent with the stated investment objectives and guidelines for the particular client account.

Clients must deliver their investment guidelines and restrictions to us in writing, and we will adhere to such guidelines and restrictions when making investment decisions. We have also entered into sub-advisory agreements with Alcentra NYLLC where we provide investment advice but are not responsible for day-to-day investment management decisions.

**Item 17. Voting Client Securities**

While the private funds that we manage have delegated proxy voting decisions to the Firm, we generally will not be called upon to vote because of the nature of the clients' investment strategies. However, in certain rare situations when we are called upon to vote, we will decide on a case-by-case basis how each proxy should be voted in the best interests of the client. This generally means voting proxies with a view toward enhancing the economic value of the investment. In the case of social and political responsibility issues that, in our opinion, do not primarily involve financial considerations, it is our objective to support shareholder proposals that we believe promote good corporate citizenship while enhancing long-term shareholder value.

The Firm has implemented policies and procedures designed to ensure voting decisions are based on the best economic interest of the clients. In summary, the procedures require completion of a conflicts questionnaire to identify possible relationships with the parties involved in the proxy that may not be readily apparent. Based on the responses, we will determine whether we believe a material conflict of interest is present. If a material conflict is found, we will recuse the individual involved from the voting process. If a tie exists for any vote, we will seek the recommendation of an independent third party or resolve the conflict in such other manner as we believe is appropriate, including by making our own determination that a particular vote is, notwithstanding the conflict, in the best interest of the funds.

A copy of our Proxy Voting Policy, as well as information regarding the voting of securities, is available upon request by contacting the Firm's Chief Compliance Officer at the address designated on Page 1 of this Form ADV Part 2.

**Item 18. Financial Information**

In certain circumstances, registered investment advisers are required to provide you with financial information or disclosures about their financial condition in this Item. Alcentra Limited have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to clients and have never been the subject of a bankruptcy proceeding.