



**Shoreline Capital Management, Ltd.**

**PART 2A FORM ADV**

Business Address

3 Jin Sui Road #1201A  
Zhujiang New Town  
Guangzhou, PR China

Contact Information

Kaixia Ou  
Chief Compliance Officer  
Phone: +86(20)8560-6988  
Fax: +86(20)8560-6160  
3 Jin Sui Road #1201A  
Zhujiang New Town  
Guangzhou, PR China  
[kathleen.ou@shoreline-capital.com](mailto:kathleen.ou@shoreline-capital.com)  
[www.shoreline-capital.com](http://www.shoreline-capital.com)

March 2015

**This brochure provides information about the qualifications and business practices of Shoreline Capital Management, Ltd. ("Shoreline" or the "Adviser"). If you have any questions about the contents of this brochure, please contact us at +1 (408) 354-2277 or [kathleen.ou@shoreline-capital.com](mailto:kathleen.ou@shoreline-capital.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 the Adviser also is available on the SEC's website at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).**

Shoreline is registered as an investment adviser with the SEC under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Recipients of this Brochure should be aware that registration with the SEC does not in any way constitute an endorsement by the SEC of an investment adviser's skill or expertise. Further, registration does not imply or guarantee that a registered adviser has achieved a certain level of skill, competency, sophistication, expertise or training in providing advisory services to its clients.

**ITEM 2**  
**Material Changes**

The Form ADV Part 2 Disclosure Brochure includes the following material changes since it was last filed in March 2012:

The regulatory asset under management has increased to US\$746,675,064 as of December 31, 2014.

**ITEM 3**  
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#### ITEM 4

##### Advisory Business

Shoreline Capital Management, Ltd. ("**Shoreline**" or the "**Adviser**") is an investment adviser with its main office in Guangzhou, China. Shoreline is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "**Advisers Act**"), and, as a company formed in the British Virgin Islands (the "**BVI**"), is licensed by the British Virgin Islands Financial Services Commission to conduct investment business services according to the Securities & Investment Business Act, 2010.

Currently, Shoreline's clients are three private investment funds: Shoreline China Value I, LP ("**Fund I**"), Shoreline China Value II, LP ("**Fund II**"), and Shoreline China Value III, LP ("**Fund III**", "**Fund II**" and, collectively with Fund I, "the **Funds**"), all of which are BVI limited partnerships. Shoreline serves as general partner of and investment manager to Fund I. An affiliate of Shoreline, Shoreline Capital Partners Limited, serves as the general partner to Fund II. Shoreline Capital Partners III serves as the general partner to Fund III ("**Affiliated GP**"). But both have delegated investment management authority over Fund II and Fund III to Shoreline pursuant to an investment management agreement between Fund II, Fund III, and Shoreline. As described in greater detail in Section 8 below, Shoreline primarily advises the Funds on the investments in distressed debt or equity, including non-performing loans ("**NPLs**"), and special situations in China.

Shoreline was formed in 2004. It is owned by Xiaolin Zhang, Benjamin Fanger, Linyu Yang, Ye Shen, Wei Wang, Lingling Song, and Ci Mei, who are principals of the Adviser and members of the investment committee with ultimate responsibility for approving investments and overseeing the Funds and their investment portfolios.

Prior to forming Fund I in 2008, Shoreline advised distressed investors in locating and pricing distressed assets and portfolios in China. Shoreline formed Fund II in 2011 and formed Fund III in 2014. Fund I, Fund II, and Fund III are managed pursuant to certain investment objectives, strategies and limitations set out in each Fund's offering document (the "**Offering Document**") and limited partnership agreement ("**Limited Partnership Agreement**"). Shoreline does not tailor the investment advice it provides to the Funds to any investor's individual needs or objectives. Shoreline China Value I, LP has a term of five years from the date of its initial closing, though this term may be extended under certain circumstances for up to two additional one-year periods. Shoreline China Value II, LP has a term of seven years and may be extended for up to two additional one-year periods. Shoreline China Value III, LP has a term of seven years and may be extended for up to two additional one-year periods.

The Adviser has two wholly-owned subsidiaries, Shoreline Capital Consulting Co., Ltd. ("**SCC Ltd.**") and Shoreline Capital Consulting, Inc. ("**SCC Inc.**" and, collectively with SCC Ltd., the "**Consulting Firms**"). The Consulting Firms house the employees of Shoreline and provide Shoreline with certain services pursuant to an agreement between each Consulting Firm and the Adviser (each a "**Consulting Agreement**"). SCC Ltd. is situated in Guangzhou, China. SCC Inc. is located in Los Gatos, California.

Shoreline manages US\$746,675,064 of the Funds' assets on a discretionary basis as of December 31, 2014.

#### ITEM 5

##### Fees and Compensation

Fund I:

Fund I shall pay to the General Partner a management fee (the "**Management Fee**"), payable quarterly in advance, in an amount equal to 2.0% per annum of the Fund's aggregate Commitments until the earlier of (i) the termination of the Commitment Period or (ii) the date on which a Competitive Fund (as defined in the Partnership Agreement) begins paying a management fee, after which the Fund shall pay Management

Fees to the General Partner in an amount equal to 1.5% per annum of the aggregate capital invested in the Fund's remaining investments, each as determined at the commencement of each quarterly period in respect of which such Fees are due and payable

Fund I's "**Commitment Period**" runs from its initial closing to the earliest of (1) the third anniversary of the initial closing, (2) the date on which the aggregate capital commitments of all investors have been reduced to zero, (3) the termination of the Fund, and (4) the affirmative vote of 66 2/3% in interests of the investors to end the Commitment Period (excluding defaulting limited partners and affiliates of Shoreline). A "**Competitive Fund**" means a partnership or similar investment structure with investment objectives and strategies similar to those of the applicable Fund.

Fund II:

Fund II will enter into a management agreement (the "**Management Agreement**") with the Management Company. The Fund will pay the Management Company a management fee (the "**Management Fee**"), in respect of each Limited Partner (other than Affiliated Partners), payable quarterly in advance. Until the earlier of (i) the date of the termination of the Commitment Period or (ii) the date on which a Follow-On Fund (as defined below) begins paying a management fee, the Management Fee payable with respect to each Limited Partner will be an amount equal to 2.0% per annum of such Limited Partner's aggregate Commitments. Thereafter, the Fund will pay Management Fees to the Management Company with respect to each Limited Partner in an amount equal to 1.5% per annum of the excess of (x) such Limited Partner's aggregate capital contributions to the Fund solely with respect to Fund investments (or any portion thereof) that have not been disposed of as of such date over (y) such Limited Partner's pro rata share of the aggregate net unrealized losses attributable to such investments, as determined at the commencement of each quarterly period in respect of which such Management Fees are due and payable. The Management Fee will be prorated for partial periods. Management Fees may be paid out of disposition proceeds and income from the Fund's investments, as well as the Fund-level reserves.

Fund II's "**Commitment Period**" expires on the earliest to occur of (a) the fourth anniversary of the Initial Closing; (b) the date on which the aggregate Commitments of all Limited Partners have been reduced to zero; (c) the termination of the Fund or (d) upon the affirmative vote of 66-2/3% in interests of the Limited Partners (other than Defaulting Limited Partners or affiliates of the General Partner)

Fund III:

Fund III will enter into a management agreement (the "**Management Agreement**") with the Management Company. The Fund will pay the Management Company a management fee (the "**Management Fee**"), in respect of each Limited Partner (other than Affiliated Partners), payable quarterly in advance. Until the earlier of (i) the date of the termination of the Commitment Period or (ii) the date on which a Follow-On-Fund (as defined below) begins paying a management fee, the Management Fee payable with respect to each Limited Partner will be an amount equal to 2.0% per annum of such Limited Partner's aggregate Commitments. Thereafter, the Fund will pay Management Fees to the Management Company with respect to each Limited Partner in an amount equal to 1.5% per annum of the excess of (x) such Limited Partner's aggregate capital contributions to the Fund solely with respect to Fund investments (or any portion thereof) that have not been disposed of as of such date over (y) such Limited Partner's pro rata share of the aggregate net unrealized losses attributable to such investments, as determined at the commencement of each quarterly period in respect of which such Management Fees are due and payable. The Management Fee will be prorated for partial periods. Management Fees may be paid out of disposition proceeds and income from the Fund's investments, as well as the Fund-level reserves.

Fund III's "**Commitment Period**" expire on the earliest to occur of (a) the fifth anniversary of the Initial Closing; (b) the date on which the aggregate Commitments of all Limited Partners have been reduced to zero; (c) the termination of the Fund or (d) upon the affirmative vote of 75% in interests of the Limited Partners (other than Defaulting Limited Partners or affiliates of the General Partner)

Shoreline may waive all or part of the management fees payable by any limited partner in a Fund in Shoreline's sole discretion. No Management Fees will be payable by Shoreline or the Affiliated GP, as applicable, or any other Fund investor that is related to Shoreline, the Affiliated GP or their affiliates.

All transaction, investment banking, break-up or similar fees relating to any investment by the Funds (transaction fees) received by Shoreline in excess of all reimbursable costs and expenses will be applied against and will reduce the management fee payable to Shoreline.

Additional information about the management fees payable by an investor in a Fund is available in that Fund's Offering Document and Limited Partnership Agreement, which are provided to qualified prospective investors.

Carried Interest. Shoreline is entitled to receive a carried interest with respect to Fund I, and Affiliated GP is entitled to receive a carried interest with respect to Fund II and Fund III. Proceeds from the disposition of investments will be made:

(a) First, 100% to each limited partner until that limited partner has received cumulative distributions equal to the aggregate capital contributions that investor made to the applicable Fund,

(b) Second, 100% to each limited partner until limited partners have received a preferred return (making the carried interest subject to a "hurdle" rate over and above the return of capital contributions),

(c) Third, 100% to either Shoreline or Affiliated GP, as applicable, until Shoreline or Affiliated GP has received 20% of distributions made over and above return of capital in satisfaction of the hurdle rate, and

(d) Fourth, 80% to limited partners and 20% to Shoreline or the Affiliated GP, as applicable.

The carried interest is subject to a clawback after dissolution of the relevant Fund under certain circumstances.

Shoreline may waive all or part of the carried interest with respect to any limited partner's capital account in a Fund in Shoreline's sole discretion. No carried interest allocation will be made by Shoreline or the Affiliated GP, as applicable, or any other Fund investor that is related to Shoreline, the Affiliated GP or their affiliates.

Other Fees and Expenses. Fund I (and thus investors in that Fund) bore the Fund's organizational expenses up to \$300,000. Fund II (and thus investors in that Fund) bore the Fund's organizational expenses up to \$500,000. Fund III (and thus investors in that Fund) bore the Fund's organizational expenses up to \$750,000.

On an ongoing basis, the Fund will bear: all costs and expenses, including legal, auditing consulting financing accounting and custodian fees and expenses, reimbursable costs and expenses of Shoreline and/or the Affiliated GP, as applicable, litigation costs of the Fund (including attorney's fees), all costs and expenses related to the Fund's indemnification obligations, expenses associated with the Fund's tax returns, expenses incurred in connection with transactions not consummated, expenses related to the members of the Advisory Committee (discussed below in Section 10), the costs and expenses associated with any litigation (excluding fees incurred by Shoreline or the Affiliated GP, as applicable, in which Shoreline or the Affiliated GP is adviser to the Fund, director and office liability or other insurance costs, all expenses incurred in liquidating the Fund, any taxes, fees or other governmental charges levied against the Fund and all expenses incurred in connection with any tax return, audit, investigation, settlement or review of the Fund, other expenses associated with the acquisition, holding and disposition of investments, including extraordinary expenses, and all other liabilities of the Fund of whatsoever kind and nature (subject to applicable laws and regulations).

In addition, a Fund may pay certain third-parties or affiliates of Shoreline or the Affiliated GP for certain services, as set forth in Section 10 below. For instance, when Shoreline is exiting an NPL portfolio, it typically hires a debt servicer to handle loan documents, negotiations with borrowers and guarantors, oversee the filing of lawsuits, and finding exits for loans across the entire portfolio. In some cases, a Shoreline affiliate may perform certain of this work in-house pursuant to an agreement with a Fund. Shoreline seeks to ensure that each Service Company (as defined in Item 10) is qualified to provide the applicable services to the applicable Fund and that the cost of such services are fair and reasonable to the Fund. When a Shoreline affiliate performs the required services, the fees paid to the Shoreline affiliate will not have been set in an arm's length negotiation. Shoreline will seek to ensure that the cost of services provided by an affiliate will not be less favorable than could be obtained in arm's length negotiations with unrelated third parties for similar services. As discussed in Item 10, below, Shoreline will provide the applicable Fund's Advisory Committee with information regarding the agreement with a Shoreline affiliate and, in certain cases must seek the Advisory Committee's approval for the transaction or must provide the Advisory Committee with information sufficient to evidence that the rate paid to the Shoreline affiliate is a reasonable market rate.

## **ITEM 6**

### **Performance-Based Fees and Side-by-Side Management**

As discussed in Item 5 above, Shoreline is entitled to receive a carried interest with respect to Fund I, and Affiliated GP is entitled to receive a carried interest with respect to Fund II and Fund III.

The existence of the carried interest with respect to the Funds could create an incentive for Shoreline to make more speculative investments on behalf of the Funds than it might otherwise make in the absence of such performance-based compensation.

In many cases, an adviser receiving a carried interest is incentivized to allocate investment opportunities to clients who either pay higher carried interest percentages or to the client whose current performance does not require them to reimburse limited partners for losses attributable to prior unprofitable investments or which have reached their "hurdle rate." In this case, however, Fund I's original investment period ended prior to the initial closing of Fund II. As a result, Shoreline cannot allocate investments based on the incentive allocations paid by the Fund. In the event Shoreline creates additional funds or manages other clients' assets in the future, the existence of a carried interest could create conflicts of interest that are not currently present.

The terms of the carried interest could also give Shoreline an incentive to make decisions regarding the timing and structure of realization transactions that may not be in the best interests of Fund investors. For example, Shoreline would be in a position to receive carried interest distributions earlier if profitable investments are liquidated prior to investments that are not profitable because, at the time proceeds from such profitable investments are liquidated, Shoreline Capital Management would not be required to first distribute capital to limited partners to make up for prior losses associated with unprofitable investments. Although both Fund I, Fund II, and Fund III contain a "clawback" requiring the general partner of such Funds to return excess distributions to limited partners in the event the general partner receives more than its carried interest percentage of Fund profits on an aggregate basis over the life of the Fund, the return of such distributions to the limited partners would generally be delayed until the dissolution of the Fund.

The carried interest also creates a potential conflict of interest for Shoreline when it is valuing investments. For example, Shoreline or Affiliated GP, as applicable, will not receive a carried interest until the limited partners receive distributions equal to their share of any write downs that were not taken into account for prior distributions. This creates an incentive for Shoreline to avoid writing down the value of assets that are not readily marketable or difficult to value because the Shoreline or Affiliated GP will be in a position to receive a higher carried interest for the period prior to the dissolution of the Fund and the application of the clawback.

## **ITEM 7**

### **Types of Clients**

Currently, the Adviser's sole clients are the Funds. Shoreline may create additional funds or advise other clients in the future. Each investor in a Fund must be an accredited investor, as defined in Regulation D under the Securities Act of 1933, as amended (the "**1933 Act**"). The minimum investment in either Fund I, Fund II, or Fund III was \$2.5 million prior to each Fund's final closing, subject to waiver by Shoreline. Funds created in the future may have different qualification requirements or minimum investment amounts.

## **ITEM 8**

### **Methods of Analysis, Investment Strategies and Risk of Loss**

The following is a general description of the investment strategies and methods of analysis Shoreline uses in pursuing the Funds' investment objective. Each Fund may have a different focus or may seek to invest in different ways. Additional information about the investment objectives and strategies of a particular fund can be found in that Fund's Offering Memorandum.

**Overview.** The aftermath of the global financial crisis has created compelling opportunities within China, particularly for experienced, local Chinese investors. Accordingly, Shoreline believes the current market environment has many opportunities as a result of: (i) over or under-inclusive lending policies implemented by the Chinese government; (ii) overall capital mismatches that characterize a developing economy such as China's; and (iii) a general lack of investor knowledge necessary to not only gauge risk, but also to structure and execute transactions in China. As a result of these inefficiencies, Shoreline seeks to invest in attractive opportunities that it believes exhibit a high likelihood of generating solid returns, while also minimizing the risk of capital loss.

**Description of Investment Foci.** Shoreline's general investment strategy includes four core investment focuses that utilize the Adviser's skill set and are complementary in nature: (i) NPL portfolios; (ii) single credit restructurings; (iii) structured special situations financings; and (iv) distressed private equity and real estate. Within each of these investment focuses, Shoreline has the core competencies to source attractive deals, structure transactions and exit investments successfully. Furthermore, Shoreline believes the diversity embedded within this strategy should allow the Funds to invest throughout economic cycles.

**NPL portfolio.** In its NPL portfolios, Shoreline causes the Funds to purchase non-performing loans at discounts to the outstanding principal balance and exit through auctions sales, workout or debt-equity swaps or other feasible exits. Such NPL portfolios are generally corporate loan portfolios and may come from geographic locations anywhere in China, holding companies of almost any industry.

**Single Credit Restructurings.** In pursuing single credit restructurings, Shoreline seeks to restructure the debt of a company and exit through repayments, debt-equity swaps, sales, listing or other feasible exits.

**Structured Special Situations.** In its structured special situations investments, Shoreline provides financing to companies that cannot access other sources of credit. Generally, the financing is structured to include security through collateral in excess of the amount of the financing. The structured special situations may involve both debt and equity-like components.

**Distressed Private Equity and Real Estate.** In its distressed private equity and real estate investments, the Adviser seeks to acquire assets of or equity in distressed companies and then exit through markets. Alternatively, the locus of distress could be a distressed seller, rather than the company or real estate itself being distressed.



**Localized platform.** The backbone of the Adviser's organization is the investment expertise of the Investment Committee members, as well as the Consulting Firms' Chinese team (the “**Shoreline Team**”), who collectively possess many years of experience navigating the Chinese legal system and credit markets. Shoreline seeks to exploit the opportunities discussed above through its extensive deal sourcing network that spans mainland China. This network has provided the Adviser with deal flow that has increased steadily (and in recent years, very rapidly) since Shoreline’s inception.

**Deal Sourcing.** The Adviser generally utilizes a blend of proprietary relationships and sourcing partnerships to source deals. As its strategies have evolved, Shoreline's network has expanded and deals can be identified through several conduits. A large portion of the publicly recognized NPLs in China are currently held in four Asset Management Corporations (“**AMCs**”) that were created in the late 1990s as holding entities for NPLs of the four major commercial banks in China. These AMCs are tasked with the servicing and disposal of these portfolios of NPLs, and because AMCs cover loans throughout mainland China, they are structured with many highly autonomous branch offices across the country. Additionally, a second anticipated source of distressed debt is China’s banks themselves. The Shoreline Team has built and maintains very strong relationships with the managers of the local AMCs and bank branches as well as the financial institutions’ management in Beijing. The Adviser also sources investments through its far-reaching networks with brokers and dealers, financial institutions, guaranty companies and auction houses, who regard the Firm as a responsible, trustworthy and professional purchaser of distressed debt – a reputational advantage that many of the Firm’s competitors do not themselves enjoy. All of these are potential deal flow sources for the Fund’s four investment focuses. The Shoreline Team has steadily built a reputation for prudence, thorough due diligence, and professionalism, which has also served to increase deal flow from proprietary contacts, current (or past) investments, industry peers, and other sourcing arrangements.

China’s developing economy is accompanied by unsophisticated capital markets and lending practices, which have and continue to create high yield financing opportunities in which well-run companies cannot obtain loans due to certain government policies. Conversely, many distressed debt opportunities exist, and are expected to increasingly surface, as result of companies obtaining an excessive amount of credit despite their substandard creditworthiness. The Adviser focuses on these types of opportunities as they arise throughout the economic cycle due to inefficiencies in China. The distressed market in China possesses the key attributes present within the distressed markets in developed economies, namely: limited available information pertaining to privately held companies and idiosyncratic events, sellers incentivized to dispose of underperforming securities at a significant discount to their inherent value, and high transaction costs. In fact, these attributes are arguably even more prevalent in China as a result of the overall financing dynamics, which can be restrictive and limiting in certain aspects. Through its experienced local team, proprietary investment platform and established networks in China, the Adviser is well-positioned to navigate the distressed landscape to source and execute uncompetitive deals that Shoreline considers to have superior risk-adjusted return profiles.

**Structuring and pricing.** The Adviser generally structures transactions with a focus on secured credit downside protection, but with equity upside potential through convertibility or other methods of equity-like exposure. Within Shoreline's strategy, a solid understanding of the enforceability of creditors’ rights is essential in minimizing investment risk. The Shoreline Team’s investment focus centers primarily on the hard assets, cash flow, liquidation value, and operating status of the borrower, rather than pricing in assumptions about future growth. Within the NPL space, the Shoreline Team conducts a comprehensive analysis of the intrinsic value of a given NPL portfolio, and projects cash flows with a discount (taking into account any legal, operational and government policy risks it deems appropriate). The Adviser generally prices a portfolio based on the likelihood of recovering the investment cost from a subset of borrowers that it has conducted diligence on, with the remainder effectively treated as option value. Outside of the NPL space, the Shoreline Team typically targets investments in companies with hard assets or marketable securities that can collateralize the Funds' financing. Distressed private equity and real assets investments are generally limited to companies that hold real estate, development projects, or otherwise have a long-standing business with stable and predictable cash flow characteristics. The Adviser's bottom-up, asset and cash flow-based pricing and senior credit structures allow for return consistency and sustainability with less risk of capital loss. Moreover, Shoreline understands the legal and practical rules surrounding the enforceability of credits

in China's various jurisdictions. As a result, when pricing investments, the Adviser is able to exclude from its valuations irrelevant factors that other, less experienced, investors may erroneously deem pertinent to the underwriting criteria.

***Adding Value and Exit Strategies.*** The Adviser is not a distressed debt trader. Instead, Shoreline seeks to take positions in companies and credits to which Shoreline's unique platform can add value. The Shoreline Team has experience adding value in many ways, including: (i) finding and attaching assets to loans, which are often difficult to locate and accurately value without a local, experienced team and network; (ii) marketing NPLs and assets to potential local or international buyers; (iii) restructuring debt; (iv) resolving legal issues; and (v) helping borrowers increase cash flow through increased revenue or additional financing sources. The Shoreline Team also has significant experience with a range of diverse exit strategies beyond the two typical private equity exit channels (public offerings and trade sales). The Firm's exit capabilities include: (i) negotiating a discounted loan pay-off; (ii) foreclosing on real estate or equity assets; (iii) selling loans to local strategic buyers; (iv) restructuring assets or securities; and (v) public market listings.

### ***General Risks Relating to Investments by The Funds***

***Non-Performing Nature of Loans.*** It is anticipated that the loans purchased by the Fund will be non-performing and possibly in default. Furthermore, the obligor and/or relevant guarantor may also be involved in bankruptcy or in liquidation proceedings. There can be no assurance as to the amount and timing of payments with respect to the loans. Although the General Partner will attempt to manage these risks, there can be no assurance that the Fund's investments will increase in value or that the Fund will not incur significant losses. The General Partner anticipates that some of the Fund's investments will incur losses. Investors should be prepared to lose all or substantially all of their investment in the Fund.

***Difficulty Locating Suitable Investments.*** Investors in the Fund will not have the opportunity to evaluate the business, financial and other information that will be used by the Firm in their analysis, selection, and monitoring of investments for the Fund. There can be no assurance that the Firm will be able to identify a sufficient number of attractive investment opportunities to fully invest Commitments in opportunities that satisfy the Fund's investment objectives, or that such investment opportunities will lead to completed investments by the Fund. Identification of attractive investment opportunities is difficult and involves a high degree of uncertainty. Furthermore, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate.

***Highly Competitive Market for Investments.*** The business of identifying and structuring transactions for investment by the Fund is highly competitive. The Fund will be competing for investments with other funds and institutional investors. Such competition may adversely affect the terms upon which investment can be made. Further, as competition for investment opportunities increase, the number of opportunities for appropriate investments may decrease, which could have an adverse impact on the length of time required for the Fund to become fully invested. Therefore, there can be no assurance that the Fund will be able to locate suitable investment opportunities, acquire them for an appropriate level of consideration, achieve any particular rate of return, or fully invest its committed capital.

***Concentration Risk.*** While the General Partner will regularly monitor the concentration of the Fund's portfolio, concentration in any one industry, region or country may adversely affect the returns on the Fund's investments. For example, virtually all of the Fund's investments will be focused on China and, at any given time, may be concentrated in certain industries. Although such geographic and industry concentrations may provide more attractive investment opportunities than others, the risk of loss on the Fund's investments will increase as a result of such concentration. To the extent there is a downturn affecting China, a particular region or industry sector in which the Fund's portfolio is concentrated, this could increase the risk of defaults, reduce the amount of payments the Fund receives on its investments and, consequently, could have an adverse impact on the Fund's financial condition and results and its ability to make distributions.

***Current Market Conditions and Valuation.*** Because there will be no readily available market for most of the Fund's investments, those investments will be difficult to value. Determination of fair values for such investments involves judgments that are not susceptible to substantiation by auditing procedures. Values assigned to such investments may not accurately reflect values that may be actually realized. General fluctuations in the market prices of securities may affect the value of the investment held by the Fund. Because China has only recently begun selling its NPLs through AMCs, there are relatively few historical transactions that can be used as reference for determining possible cash recovery rates. Also, determining the actual value of assets can be difficult in China because of deficiencies in accounting precision and standardization. There are almost always deficiencies in the legal documentation of assets in NPL portfolios and other distressed assets. Instability in the securities market may also increase the risks inherent in the Fund's investments and the timing of its realization on investments.

***Illiquidity and Volatility of the Fund's Investments.*** It may take several years from the time a particular investment is made to exit, if at all, from such investment. The Fund will often be dependent on a process of litigation and protracted negotiation with borrowers, searches for potential buyers of the assets or other resolution strategies to achieve liquidity for the Fund's investment. Some of these resolution strategies may not provide liquidity for several years, if at all. Losses on unsuccessful investments may be realized before gains on successful investments are realized. Consequently, it is possible that no significant return from disposition of many of the Fund's investments will occur for a period of several years, if at all. There is currently no public market for the Fund's expected investments and a market is unlikely to develop during the term of the Fund.

***Borrower Defaults May Adversely Affect the Fund.*** The Fund's income will be derived largely from interest payments received from its portfolio. A wide range of factors may adversely affect an obligor's ability to make interest or other payments, including: adverse changes in the financial condition of such obligor, or the industries or regions in which it operates; the obligor's exposure to counterparty risk; systemic risk in the financial system and settlement; changes in law or taxation; changes in governmental regulations or other policies; natural disasters; terrorism; social unrest, civil disturbances; or general economic conditions. Default rates tend to accelerate during economic downturns.

Any defaults will have a negative impact on the value of the Fund's investments and may reduce the income that the Fund receives from its investments in certain circumstances.

In the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of an obligor, holders of debt instruments ranking senior to the Fund's investment would typically be entitled to receive payment in full before the Fund receives any distribution in respect of its investment. After repaying the senior creditors, such obligor may not have any remaining assets to repay its obligations to the Fund. In the case of debt ranking equally with the loans or debt securities in which the Fund invests, the Fund would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant investee company.

***Investments in Financially Distressed Entities and Restructurings.*** The Fund may acquire interests in the securities and other obligations of financially distressed entities. Although such positions may bring high returns to the Fund, they involve varying degrees of risk. The financial difficulties of such entities may never be overcome and may cause such entities to become subject to bankruptcy proceedings. The timing and outcome of any bankruptcy or restructuring is unpredictable. Any one or all of the entities in which the Fund acquires interests may be unsuccessful in its attempts to restructure and become profitable or the positions may not show any return for a considerable period of time. In any bankruptcy or restructuring, the Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Fund's original investment, or may be forced to liquidate its investment at a substantial loss. In addition, under certain circumstances, payments to the Fund and distributions by the Fund to the Limited Partners may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, a preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, investments in restructurings may be adversely affected by statutes related to, among other things, fraudulent conveyances, voidable preferences, lender liability, and the bankruptcy court's discretionary power to

disallow, subordinate or disenfranchise particular claims or re-characterize investments made in the form of debt as equity contributions.

***Risk of Loss.*** The Fund is expected to invest in distressed securities, assets and instruments. These securities, assets and instruments by their nature are issued by or relate to companies in unstable financial condition and entail substantial inherent risks. Although the General Partner will attempt to manage these risks, there can be no assurance that the Fund's investments will increase in value or that the Fund will not incur significant losses. The Firm anticipates that several of the Fund's investments will incur losses. Investors should be prepared to lose all or substantially all of their Commitment to the Fund.

***Investment in Loans to Private Companies Raise Additional Risks.*** Loans to private companies involve a number of particular risks, including:

- these companies may have limited financial resources and limited access to additional financing, which may increase the risk of their defaulting on their obligations, leaving creditors such as the Fund dependent on any guarantees or collateral they may have obtained;
- these companies frequently have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;
- there may not be as much information publicly available about these companies as would be available for public companies and such information may not be of the same quality; and
- these companies are more likely to depend on the management talents and efforts of a small group of persons; as a result, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on these companies' ability to meet their obligations.

***Special Situation Transactions.*** The Fund may invest and trade in situations that it believes offer opportunity due to some identifiable dislocation, such as lack of market transparency or liquidity. Risks to the Fund in this type of investing and trading include misjudging the nature or magnitude of the factors that have caused this dislocation, the quality of the position's fundamental assets, the scope of the position's liabilities and the Fund's ability to exit the position in a timely and profitable fashion.

***Bridge Financings.*** From time to time, the Fund may lend to portfolio companies on a short-term, secured or unsecured basis in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge loans would typically be convertible into a more permanent, long-term security; however, for reasons not always in the Fund's control, such long-term securities issuance or other refinancing or syndication may not occur and such bridge loans may remain outstanding. In such event, the interest rate on such loans may not adequately reflect the risk associated with the position taken by the Fund.

***General Real Estate Risks.*** The Fund's real estate investments will be subject to the risks incident to the ownership and operation of real estate, including risks associated with the general economic climate, local real estate conditions, geographic or market concentration, the ability of the Fund to manage the real properties, government regulations and fluctuations in interest rates. With respect to investments in the form of real property owned, directly or indirectly, by the Fund, the Fund will incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property.

***Development Risks and Redevelopment Risks.*** To the extent consistent with the Fund's investment strategy, the Fund may acquire investments that provide development and redevelopment opportunities. Development and redevelopment activities require additional time, which may delay the realization of the Fund's investment objectives for such investment. During such delay, an investment may suffer a significant decline in value due to adverse economic and markets changes or other conditions affecting such investment. In addition, development and redevelopment activities may not be completed within budget or on schedule

because of cost overruns, work stoppages, shortages of building materials, the inability of contractors to perform their obligations, defects in plans and specifications or other factors. Any delay in completing the development or redevelopment of an investment may adversely affect the Fund and the Partners.

***Environmental Considerations.*** As is the case with any holder of real estate investments, the Fund could face substantial risk of loss from environmental claims based on environmental problems associated with the Fund's real estate investments.

***Uncertain Exit Strategies.*** Due to the illiquid nature of many of the investments which the Fund expects to make, the General Partner is unable to predict with confidence what, if any, exit strategy will ultimately be available for any given core position. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

***Follow-On Investments.*** Following its initial investment in an asset or portfolio, the Fund may be required to make additional investments in such asset or portfolio. While such additional investments may have the result of maintaining or increasing the Fund's expected recovery from an investment, they may also be necessary to protect the Fund's initial investment. There is no assurance that the Fund will make such additional investments or that it will have the ability to do so. The failure to make additional investments may impact the ability of the Fund to recover or realize a return on its initial investment.

***Control Position.*** The Fund may obtain a controlling or other substantial position in a public or private company. Such positions may or may not be obtained intentionally as the rights of the various classes of a company's securities may be affected by reorganization, bankruptcy, restructuring or liquidation, which could result in holders of debt securities owning a controlling or substantial equity position in a company. Should the Fund obtain such a position, it may be required to make filings concerning its holdings with various governmental and regulatory agencies and it may become subject to other regulatory restrictions that could limit the ability of the Fund to dispose of its holdings at the times and in the manner the Fund would prefer. Violations of these regulatory requirements could subject the Fund to significant liabilities. Additionally, such control could impose additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored.

***Minority Investments.*** In certain circumstances, the Fund may hold non-controlling interests in certain portfolio companies and, therefore, may have limited ability to protect its position in such portfolio companies. The laws of China differ from those in the United States or other countries and may offer limited protection to minority shareholders. As a result, management or controlling shareholders may be able to take action against the interests of minority shareholders, which could adversely affect the Fund. Under certain circumstances, it is expected that appropriate rights generally will be sought to protect the Fund's interests to the extent possible, but there can be no assurance that such rights will be available.

***Leverage of Portfolio Companies.*** The Fund may invest in portfolio companies with leveraged capital structures, in which case, such investments will be subject to increased exposure to adverse economic factors such as a rise in interest rates, a downturn in the economy or further deterioration in the condition of such portfolio company or its industry. Similarly, the Fund is expected to invest in portfolio companies that are unable to generate sufficient cash flow to meet principal and interest payments on their indebtedness. Accordingly, the value of the Fund's investment in such a portfolio company could be significantly reduced or even eliminated due to further credit deterioration.

***Investments Longer than the Term of the Fund.*** The Fund may make investments which may not be advantageously disposed of prior to the date that the Fund will be dissolved, either by expiration of the Fund's term or otherwise. Although the General Partner expects that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, the Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. In addition, all of the Fund's assets may not be liquidated or distributed in kind for a significant period of time following the

Fund's dissolution date, which would delay the Partners' receipt of their final liquidating distributions from the Fund.

***Due Diligence Risks.*** The Shoreline Team will conduct due diligence on prospective Fund investments. In conducting such due diligence, the Shoreline Team will use publicly available information as well as information from their relationships with former and current management teams, competitors and members of the finance and banking industries. Such level of due diligence may not reveal all matters and issues, material or otherwise, relating to prospective Fund investments.

***Acquisitions of Portfolios of Investments.*** The Fund may seek to purchase entire portfolios or substantial portions of portfolios from market participants in need of liquidity or suffering from adverse valuations. The Fund may be required to bid on such portfolios in a very short time frame and may not be able to perform normal due diligence on the portfolio. Such a portfolio may contain instruments or complex arrangements of multiple instruments that are difficult to understand or evaluate. Such a portfolio may suffer further deterioration after purchase by the Fund before it is possible to ameliorate such risk. As a consequence, there is substantial risk that the Shoreline Team will not be able to adequately evaluate particular risks or that market movements or other adverse developments will cause the Fund to incur substantial losses on such transactions.

***Projected Investment Results.*** The projected investment results for the Fund described in this Memorandum are based in part on hypothetical assumptions and for certain assets, past performance. Such results are presented for illustrative purposes only and are based on various assumptions, such as, for example, exit strategies, operational performance and general economic conditions, not all of which are described in this Memorandum. In particular, these projections are in some instances gross projections, and do not take into account carried interest, management fees and other expenses to which such investments would be subject. Past performance is not indicative of the future return of the Fund. Investors should be aware that investment results cannot be predicted or projected reliably, that the realization of the projected investment results is subject to significant uncertainties and contingencies and that the investment results may change materially in response to changes in one or more of such experience, and do not constitute a prediction as to future events. Because of the uncertainties and subjective judgments inherent in selecting the assumptions and because future events and circumstances cannot be predicted, there can be no assurance that the projected investment results will be realized. The actual investment results may differ, and may differ materially, from those illustrated herein. In making an investment decision, investors must rely on their own examination of the Fund and the terms of the offering, including the merits and risks involved. Any given investment made by the Fund may prove to be worthless.

***Distributions In-Kind.*** Although prior to liquidation the Fund intends to make distribution in cash and marketable securities, it is possible that certain distributions could consist of securities for which there is no readily available public market and with respect to which there are substantial transfer restrictions.

***General Economic Conditions.*** General economic conditions may affect the Fund's activities and the operation and value of its portfolio assets. Interest rates, general levels of economic activity, the price of securities and the participation by other investors in the financial markets may affect the value of the Fund's investments or assets considered for prospective investment.

***Undercapitalization.*** The Fund will be funded with the proceeds from the sale of Limited Partnership Interests. In the event that the Fund receives less than the maximum offering amount it is seeking, it will invest in fewer assets, which would reduce the diversification of the Fund's investment portfolio. The Fund may also be limited in putting additional money into portfolio assets, which may contribute to a loss of the Fund's investment in such assets or dilution of the Fund's interest in such assets. In addition, the return to investors may be reduced as a result of allocating fixed Fund expenses across a smaller amount of capital contributions.

***Contingent Liabilities on Dispositions.*** In connection with the disposition of an investment in a portfolio asset, the Fund may be required to make representations about the business and financial affairs of the portfolio

asset typical of those made in connection with the sale of any asset, and may be responsible for the content of disclosure documents under applicable laws. It may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents turn out to be inaccurate. These arrangements may result in the Fund incurring additional liabilities, which Limited Partners may have to satisfy by returning prior distributions received from the Fund.

***Reliance on Portfolio Company Management.*** The day-to-day operations of a portfolio company will be the responsibility of such company's management team. Although the General Partner will be responsible for monitoring the performance of portfolio companies and generally seeks to invest in companies operated by capable management, there can be no assurance that an existing management team, or any successor, will be able to successfully operate a portfolio company in accordance with the General Partner's strategy for such company.

***Fees, Expenses and Operating Losses.*** The expenses of organizing and operating the Fund, including the Management Fee, will for an indefinite time exceed the Fund's income, requiring that the difference be paid from the Fund's capital. Because the Fund will invest in illiquid securities, the Fund may incur operating losses for several years before profits, if any, are realized.

***Uncertainty of Valuations.*** Certain of the Fund's investments will be investments for which there is no, or a limited, liquid market. The fair market value of such investments may not be readily determinable. In some cases, the Fund will value these securities at fair market value determined by the General Partner. The valuations used by the General Partner for a significant portion of the Fund's investments may therefore not reflect the most recently available market information. The types of factors that may be considered in fair market value pricing of the Fund's investments include the nature and realizable value of any collateral, the obligor's ability to make payments and its earnings, the markets in which the obligor does business, comparisons to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations with respect to loans and securities of private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. The General Partner's determinations of fair market value may differ materially from the actual realizable values of such investments. The Fund's financial condition and results of operations could be adversely affected if the Fund's fair market value determinations were materially higher than the values that the Fund ultimately realizes upon the realization of such investments.

## ***Risks Related to Investing in China***

### **General Risks**

***Continued State Involvement in the Chinese Economy.*** In the past, the Chinese economy was a planned economy subject to one- and five-year state plans adopted by the central Chinese government authorities and implemented, to a large extent, by provincial and local authorities, which set out production and development targets. Beginning in the late 1970s, China has been transitioning itself from a state-controlled economy to a market-driven economy. Over this period, the Chinese government has issued policies and implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. Despite China's ongoing transition to a market-driven economy, the Chinese government continues to directly or indirectly own a substantial portion of China's productive assets and plays a significant role in regulating development through industrial policies, taxation, allocating resources, regulating payments of foreign currency obligations (see Foreign Exchange Control below), imposing credit policies on commercial banks and setting monetary policy. Many of these reform-oriented policies and measures are unprecedented or experimental, which may cause fiscal deficits, inflation, or other economic imbalances, and may or may not be reversed, suspended, delayed or improved over time. Such policies and measures could negatively affect the Fund's investments in China.

***Developing Nature of China's Legal System.*** The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. The Chinese government is in the process of developing a comprehensive system of laws, a process that has been ongoing since 1979. While China has enhanced the protections afforded to various forms of foreign investment, the Chinese legal system remains incomplete. In particular, the legal frameworks governing the NPL transactions and real estate-oriented investment in China are still underdeveloped (see *Changing Legal Framework for NPL Transactions* and *Central And Local Regulation Of China's Real Estate Investments* below). Moreover, the administrative and judicial interpretation and implementation of laws and the resolution of commercial disputes may be subject to the exercise of considerable discretion by both administrative and judicial officials and may be influenced by external forces unrelated to the legal merits of a particular matter or dispute. These uncertainties could limit the legal protections available to the Fund and its portfolio companies in China. Even where adequate laws exist and contractual terms are clearly stated, there can be no assurance of a swift and equitable enforcement of the Fund's legal rights. In addition, because it is difficult to predict the effect of future developments in China's legal system, the Fund's investments in China may be adversely affected by new laws, changes to existing laws (or interpretations or enforcement thereof), or the preemption of local regulations by national laws. For example, it is possible that, in the future, the Chinese government might exert excessive control over real estate development and investment activities in China, which could negatively impact the Fund's investment ability.

***Foreign Investment Controls.*** There are laws and regulations in the People's Republic of China that, to varying degrees, preclude or restrict direct foreign investment in the assets and securities of Chinese resident companies and entities. These restrictions or controls may increase the costs and expenses of the Fund. China currently requires governmental approval prior to investments by foreign persons and limits the repatriation of investment income, capital and the proceeds of sales by foreign investors, and foreign currency. The Fund could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital, interest and dividends paid on securities held by the Fund or any other such development.

### ***Currency Risks***

***Exchange Rate Fluctuations.*** Prior to 1994, the RMB had experienced a significant net devaluation against most major currencies and, during certain periods, significant volatility in the market-based exchange rate. From January 1, 1994 to July 20, 2005, the People's Bank of China had intervened in the foreign exchange market to maintain an exchange rate of approximately 8.28 RMB per U.S. dollar and a daily trading band of 8.2770 to 8.2800. On July 21, 2005, the Chinese government changed this policy and set the RMB exchange rate against a basket of currencies, allowing it to fluctuate 0.3% up or down on any given day's transactions. However, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals. During the period between July 2008 and June 2010, the exchange rate between the RMB and the U.S. dollar had been stable and traded within a narrow band. However, the RMB fluctuated significantly during that period against other freely traded currencies, in tandem with the U.S. dollar. Since June 2010, the RMB has started to slowly appreciate against the U.S. dollar, though there have been periods recently when the U.S. dollar has appreciated against the RMB. It is difficult to predict how long the current situation may last and when and how this relationship between the RMB and the U.S. dollar may change again. Currently, the rate reached 6.0710 by the end of 2013. The People's Bank of China continues to intervene in the foreign exchange market to prevent significant short-term fluctuations in the RMB exchange rate. Nevertheless, under China's current exchange rate regime, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. There remains significant international pressure on the Chinese government to adopt a substantial liberalization of its currency policy, which could result in a further and more significant fluctuations in the value of the RMB against the U.S. dollar. As a result, there remains considerable uncertainty about whether the exchange rate for the RMB will change significantly in the near term. Insofar as development projects in China will incur costs and earn profits in RMB and may secure financing in RMB, changes in the value of the RMB may have an impact on the results of the Fund. Further, to the extent that the Fund may secure



financing for projects in international currencies like the U.S. dollar, any change in the exchange rate would affect the relative cost of such capital and, as a consequence, would affect the results of the Fund.

***Foreign Exchange Control.*** In addition to managing the exchange rate between the RMB and the U.S. dollar, the Chinese government imposes very tight controls on the convertibility of RMB into foreign currencies and the remittance of currency out of China in certain circumstances. Under existing foreign exchange laws, RMB can be converted into foreign currencies and remitted out of China to pay current account items such as payments to suppliers for imports, labor, services, and payments of interest on foreign exchange loans. Expenses of a capital nature such as the repayment of bank loans denominated in foreign currencies require governmental registration and approval from appropriate governmental authorities before RMB can be converted into foreign currency for remittance out of China. Similarly, inbound transfers of foreign currency can only be converted into RMB under certain circumstances. This system could be changed at any time by executive decision of the State Council. Furthermore, the State Administration of Foreign Exchange has a significant degree of administrative discretion in implementing the laws, and has used this discretion to limit convertibility of current account payments out of China. In 2008, the State Administration of Foreign Exchange issued a notice regulating the conversion by a foreign-invested company of its capital contribution in foreign currency into RMB. It requires that RMB converted from foreign currency-denominated capital of a foreign invested enterprise may only be used for purposes within the business scope approved by the relevant government authority and may not be used to make equity investments in China, unless specifically provided otherwise. Moreover, the approved use of such RMB funds may not be changed without approval from SAFE. RMB funds converted from foreign exchange may not be used to repay loans in RMB if the proceeds of such loans have not yet been used. Whether as a result of a deterioration in the Chinese balance of payments, a shift in China's macroeconomic prospects or any number of other reasons, China could impose further restrictions on capital remittances abroad. There can be no assurance that the Fund will be permitted to repatriate capital or profits, if any, and there can be no assurance that the Fund will be able to easily convert foreign currency into RMB for purposes of making certain investments onshore. The Fund could also be adversely affected by delays in, or a refusal to grant, any required governmental approval for deployment and repatriation in connection with equity and debt capital, interest and dividends paid on investments held by the Fund.

### ***NPL Risks***

***Changing Legal Framework for NPL Transactions.*** NPL sales are a relatively new phenomenon in China, and the legal framework governing NPL transactions is still developing. Although there have been a number of NPL auctions in past years, the rules applicable to the transfer, holding and servicing of NPLs, together with the taxation of such transactions, continue to evolve. Further, the structure of NPL transactions is subject to approval by Chinese government authorities, and to negotiation with the state-owned asset management companies which own the bulk of NPLs available for investment. It is possible that changes in the rules applicable to auctions of NPLs or to government policies could adversely affect the Fund's ability to participate in auctions of NPLs and to hold and service NPLs. Such changes could adversely affect returns earned by the Fund in NPL transactions. Further, such changes could render investment in NPLs in China unattractive as an asset class.

***Common Deficiencies in NPL Portfolios.*** NPL portfolios offered for auction typically suffer from a range of defects. Among other things, creditors' rights are often inadequately documented and the validity of security interests is frequently questionable. The resulting difficulty in underwriting investments in NPLs is further compounded by the limited due diligence rights typically granted to NPL investors. Such issues may adversely affect the ability of the Fund to evaluate NPL investments and to seek satisfactory resolution of NPLs it may acquire.

***Limitations Under Chinese Debtor-Creditor Law.*** As a result of developing nature of China's legal system, the Fund's ability to seek resolution of NPLs in China may be more limited than it would be in other countries. This could have an adverse impact on the Fund's ability to seek satisfactory returns in connection with investments in NPLs in China.

**Foreclosure.** The Chinese law imposes a number of limitations on the ability of creditors to foreclose on collateral securing a debt. Self-help is generally unavailable to creditors, and unless a defaulting debtor is willing to settle with a creditor, enforcement of a security interest requires the creditor to litigate in court. Litigation in China can be time-consuming, expensive and highly unpredictable. As a result, many NPL investors in China have not generally relied on foreclosure as a strategy to realize value on their investments. The limited availability of foreclosure as a remedy may limit the ability of the Fund to secure a satisfactory return on NPL investments and reduce the number of NPL investments that are attractive to the Fund in China.

**Bankruptcy.** Prior to the enactment of the new Bankruptcy Law in August 2006, the previous version of the Bankruptcy Law solely addressed the bankruptcy of state-owned enterprises (“SOEs”). Under the old regime, bankruptcy of SOEs were subject to prior approval of the government and were further limited by quotas. As a result, bankruptcy proceedings for SOEs were significantly influenced by policies and decisions of China’s national and local governments. Under the old regime, bankruptcy procedures for other enterprises were treated in cursory fashion in China’s Code of Civil Procedure, but remained otherwise uncoded. As a result, insolvent Chinese companies would commonly cease operation but almost never liquidate or dissolve, and this practice may continue despite the enactment of the new Bankruptcy Law.

The enactment in August 2006 of China’s new Bankruptcy Law expanded the scope of Chinese bankruptcy law from SOEs to include private companies, as well as giving priority to the rights of secured creditors in the foreclosure of secured assets. However, despite these advances, there can be no assurance regarding the implementation of the new Bankruptcy Law, and Chinese bankruptcy law remains underdeveloped as compared to the United States. There is no legal basis for many concepts familiar in other jurisdictions, such as automatic stay of creditor actions and substantive consolidation. These factors make it difficult for the Fund to predict the outcome of bankruptcy proceedings and limit the usefulness of bankruptcy as a means to seek resolution of NPLs.

**Special Priorities in SOE Bankruptcies.** The rights of secured creditors in respect of SOEs are significantly limited by the priority of workers’ claims. A 1997 regulation issued by the State Council provided that, to protect workers of bankrupt or liquidated SOEs, proceeds obtained from land sales or auctions during bankruptcy proceedings of these firms must first be used to settle workers’ claims for unpaid salaries, pensions and insurance premiums. Moreover, the regulation provides that, if proceeds from the auction or sale of land are insufficient to cover all outstanding worker-related claims, proceeds of the debtor’s other assets should be used for the same purpose until all such worker-related claims are fully paid. Secured creditors are entitled to receive the remaining proceeds if any. This policy is applicable in 111 cities, covering almost all major industrial and commercial areas in China. This policy significantly limits the usefulness of bankruptcy as a means to seek recovery on NPLs where the debtor is an SOE.

**Loan Servicing.** A 1995 notice issued by the Ministry of Public Security and the State Administration of Industry and Commerce (the “SAIC”) forbids the establishment of “debt collection companies” which act on behalf of third-party creditors. The 1995 Notice does not define the term “debt collection companies,” but describes the activities of such companies as “undertaking as agent the business of debt collection and debt pursuance” and “participating as agent in litigation and non-litigation matters without any legal basis and lacking authority and administrative enforcement power granted by law.” A 2000 notice jointly issued by the State Economic and Trade Commission, the Ministry of Public Security and the SAIC reaffirmed the prohibition against debt collection companies, including companies rendering debt collection services under the guise of “business agency” or “financial consulting” services. The Chinese law does not clearly demark the boundary between illegal debt collection activities and loan servicing activities. While we are aware of a case where a foreign invested Company in China was granted a business scope to service NPLs for an affiliated foreign invested company, it is not clear whether an affiliate of the Fund would be able to secure the necessary business scope to allow it to service NPLs in China on behalf of the Fund or its other affiliates. Absent such approval from the Chinese authorities, the Fund’s ability to hire servicers to service a portfolio of NPLs could be limited.

**Limited NPL Investment Opportunities.** The availability of NPL portfolios in auctions sponsored by China's asset management companies is affected by government policy and is unpredictable. To date, foreign investors have been given only limited opportunity to invest in auctions and sales of NPL portfolios. Further, there is a market perception that government policy may encourage sales to domestic investors over foreign investors. As a result, the Fund may be unable to source a sufficient number of attractive NPL opportunities to meet its investment.

**Risks Relating to PRC Taxation.** There is a risk that the Fund, the General Partner and the Management Company could be treated as having a taxable presence or constituting a resident enterprise in the PRC, which could result in adverse tax consequences to the Fund, its investors, the General Partner and the Manager. The PRC may tax offshore funds and other entities under certain circumstances.

In the PRC, an offshore entity can either be treated as having an establishment in China or be classified as a resident enterprise for PRC enterprise income tax purposes. An offshore entity can be treated as having an establishment in China if it maintains a fixed place of business in China, directly or through its agents. In the event an offshore entity is treated as having an establishment in China, the PRC tax authorities have the authority to impose PRC enterprise income taxes on income attributable to the establishment. Income is attributed to a Chinese establishment using a deemed profit method whereby a percentage of the entity's total profits are multiplied by a percentage to arrive at an amount subject to the PRC enterprise income tax. An offshore entity can be classified as a PRC resident enterprise if its *de facto* management bodies are based in China. In the event an offshore entity is classified as a PRC resident enterprise, the PRC tax authorities have the authority to impose PRC enterprise income tax on the worldwide income recognized by the entity and further impose withholding taxes on distributions and transfers of interests with respect to the entity as if it were a PRC legal entity.

In the event any of the above claims were to be made against the Fund, the General Partner or the Management Company different levels of PRC taxation could be imposed on income recognized by the Fund and on the Management Company's management fee. In addition, the Fund may have to withhold taxes on its investors in the event it was considered a PRC resident enterprise. Because of the Fund's proximity to the PRC and the evolving state of the rules regarding establishments and resident enterprises, there is a risk that we could be taxed in one or more of the manners described above. While Shoreline Capital has structured the Fund, the General Partner and the Management Company and organized their operations to stay clear of these rules, given the evolving state of these rules no assurance can be given that the PRC tax authorities would not attempt to make such claims and that they would not ultimately prevail in doing so. For more information regarding the tax consequences which could result from the manners above, see Section IX, "*Regulatory and Tax Matters-Tax Considerations - Chinese Tax Considerations.*"

## **REAL ESTATE RISKS AND REAL ESTATE-BACKED FINANCING RISKS**

### **Central And Local Regulation of China's Real Estate Investments**

**General.** Real estate is a heavily regulated industry in China and the relevant laws and regulations are constantly evolving. In addition to national laws and regulations governing property rights and the real estate sector, various provincial and local governments enact regulations and procedures. For example, the central and local governments from time to time make policy adjustments and adopt new regulatory measures in a direct effort to control the pace and scale of development of the national and local real estate markets. Foreign ownership of real estate or real estate-related assets in China may be restricted, requiring the Fund to share the applicable investment with local third-party partners or investors. There may be significant local land use and permit restrictions, costs associated with obtaining the necessary governmental approval for foreign investment, local taxes, and other transaction costs which adversely affect the returns sought by the Fund. The Fund's failure to comply with real estate-related laws and regulations could also result in fines or other penalties, and the need to obtain government approvals or third-party consent and otherwise to comply with regulatory requirements may cause significant delays in the development process, exacerbating the risk that changes in the local market will render a project economically unattractive.

Regulatory enactments, or changes in their interpretation by the competent authorities, may preclude the Fund from engaging in activities in which it otherwise might seek to engage or force the Fund to incur additional costs.

**March 2007 Property Law.** The Chinese government enacted a national Property Law on March 16, 2007 with an effective date of October 1, 2007. This new legislation is generally favorable to private property rights. It formally recognizes for the first time that property rights of individuals have equal protection under the law along with property rights held by the State, collectives, and other parties. The new law also helps reconcile the patchwork of laws and regulations adopted over the past ten years on the subject of property. The new law addresses such matters as different forms of legal ownership including condominium and joint and common ownership, usufructuary rights, easements, security interests, possession, and property registries. Although the new Property Law is a step forward in codifying existing property rights in China, the provisions of the new law are very high-level, focus mostly on State and collectively owned land matters, and are subject to more detailed implementing regulations to come. Many of the new provisions are of a general policy statement nature and as a result, it is difficult to gauge the full impact of the new law in its early stages.

**Land Use Rights.** In China, the supply of substantially all land has traditionally been owned and controlled by the Chinese government and government-controlled entities, and the ability of the Fund, or its intermediate investment entities, to acquire land use rights in disposing the real estate involved in the NPL assets and the acquisition costs of such land use rights will accordingly be affected by government policies towards land supply. The central and local governments may regulate the means by which property developers obtain land for development, including regulations requiring that land use rights for residential property development be sold by public tender, auctions or announcement. Although the General Partner believes that such measures will increase transparency in the regulatory system, it may also increase the cost of preparing the distressed real estate assets for sale or have other effects that adversely affect the Fund's investment performance.

**Expropriation of Land Use Rights by the State.** Under the Chinese law, the government can expropriate granted land use rights in the public interest. The concept "public interest" is not clearly defined under the Chinese law. There have been instances when local governments have interpreted "public interest" broadly and reclaimed granted land use rights for development by private businesses. In the event the government expropriates granted land use rights, it is obligated to pay "appropriate compensation." The law requires that such compensation should be determined with reference to the number of years land has been used and the actual state of the land's development. However, the standards applicable to determining compensation under these rules are undeveloped, and there is little precedent to give guidance as to their practical application. The new Property Rights Law clarifies that expropriation must be conducted according to specific procedures, that compensation should be paid for land grant fees, property built on the land being expropriated, resettlement costs, and that the residential conditions of those expropriated should be guaranteed. Despite the new Property Rights Law, there can be no assurance that real estate invested by the Fund would not be subject to such government expropriation, which may have a negative impact on Fund results.

**Recent Austerity Measures for Foreign Investors.** The Chinese government has adopted a number of measures in the past few years in order to curb the perceived speculative activities in China's real estate market. One measure of note is the Opinions on Regulation of Approval and Administration of Foreign Investment in the Real Estate Market, Jian Zhu Fang 2006 No. 171 ("**Circular 171**") issued by China's Ministry of Construction, Ministry of Commerce, National Development and Reform Commission, People's Bank of China, State Administration for Industry and Commerce and State Administration of Foreign Exchange on July 11, 2006. Circular 171 is specifically targeted at foreign investment in China's real estate sector and requires foreign investors to establish an onshore commercial presence to own real estate in China. Such onshore entities must have a registered capital representing no less than 50% of their total investment amount (if their total investment amounts are US\$10 million or more); while under the general capitalization rules, the percentage could be one-third if the total investment amount exceeds US\$30 million. Circular 171 further provides that onshore entities in the real estate sector may borrow only upon the

satisfaction of the following conditions: (i) their registered capital has been fully paid; (ii) relevant land use right certificates have been obtained; and (iii) their registered capital constitutes 35% or more of the total capital demand of the development project. As a matter of practice, foreign exchange leverage has generally been restricted for foreign investment in real estate since the promulgation of Circular 171. For acquisitions, Circular 171 also requires the purchase price for domestic property developers should be paid in full in one lump sum; while under general foreign investment acquisition rules, such payments are allowed to be made in installments within one year. In implementing Circular 171, the issuing authorities and local governments may impose further restrictions. In addition, in recent years, in an effort to stabilize the growth of its economy, the PRC government introduced a series of austerity measures, including those aimed at controlling the inflow of offshore funds into the property development industry or for property-related speculative activities. In particular, the notice issued on May 23, 2007 by PRC authorities, often referred to as Notice 50, requires that newly approved and established foreign invested real estate companies must comply with certain registration requirements with relevant PRC authorities. In addition, Notice 50 requires that established foreign invested real estate companies with new property projects or property business must comply with the relevant approval or filing requirements. On June 18, 2008, PRC authorities issued a Notice, often referred to as Notice 23, which provides that such filings must first be examined by the provincial branch of PRC authorities and that such PRC authorities may spot-check five to 10 registered foreign invested real estate enterprises in every quarter. There can be no assurance that the Chinese government will not exert further control over real estate development and investment activities in China by foreign investors, which could negatively affect the Fund's Chinese real estate investments.

#### ***Risks Related to an Investment in the Funds***

***Long-Term Nature of Investment in Interests; No Assurance of Return.*** An investment in the Fund requires a long-term commitment, with no certainty of return. Because of the nature of the Fund's investments, there can be no assurance that the Fund will be able to realize returns on such investments in a timely manner or at all, and there may be little or no near-term cash flow available to the Partners. The return of capital and the realization of gains, if any, from an investment may not occur until a number of years after the respective investment is made, if at all.

***No Market for Interests; Restrictions on Transferability; No Withdrawal Rights.*** Interests in the Fund have not been registered under the Securities Act or the securities laws of any state, country or other jurisdiction, and cannot be resold unless they are subsequently registered under the Securities Act and other applicable U.S. and non-U.S. securities laws or an exemption from registration is available. It is not contemplated that registration of the Interests under the Securities Act or other securities laws will ever be effected. There is no public market for the Interests and none is expected to develop. A Limited Partner will also generally not be permitted to assign its Interest without the prior consent of the General Partner, which may be withheld in the General Partner's sole discretion. Limited Partners may not withdraw capital from the Fund. Consequently, Limited Partners may not be able to liquidate their Interests prior to the termination of the Fund and must be prepared to bear the risks of owning Interests for an extended period of time.

***Litigation.*** Investing in distressed assets such as NPLs can be a contentious and adversarial process. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. Shoreline Capital anticipates that the Fund may be named as defendants in civil proceedings. The expense of defending against such claims and paying settlements or judgments will be borne by the Fund and this would reduce the Fund's net assets. The General Partner and Related Persons will be indemnified by the Fund in connection with such litigation, subject to certain conditions.

***Recent Events in the Financial Markets.*** Recent events in the financial markets have contributed to a severe liquidity crisis in the global credit markets. As a result, significant additional risks exist for the Fund and the Limited Partners. Those risks include, among others, (i) the possibility that the prices at which the Fund's investments can be sold will have deteriorated from their effective purchase price, (ii) the possibility that opportunities for the Fund to sell its assets in an appropriate market may be impaired; and (iii) a decrease in the availability of financing for the acquisition of investments or acquisitions where the financing is

materially different than originally expected. The Fund's ability to sell its assets may be impaired by a decrease in demand for such assets due to changes in global financial markets. Factors that may cause a decrease in demand for the Fund's assets include, among others, (x) the availability of alternative investments that offer higher yields or are perceived as being a better credit risk, having a less volatile market value or being more liquid, (y) investors' perceptions regarding the markets for the various asset classes in which the Fund participates, and (z) investors' perceptions regarding credit, liquidity and the capital markets in general, which may be adversely affected by political, social and economic events that may be completely unrelated to the commercial markets. These additional risks may reduce the Fund's expected rates of return on its investments or otherwise adversely affect Limited Partners in the Fund.

**Regulatory Changes.** As a result of recent highly-publicized financial scandals, investors, regulators and the general public have exhibited concerns over the integrity of both the U.S. financial markets and the regulatory oversight of these markets. As a result, the business environment in which the Fund operates is subject to heightened regulation. With respect to alternative asset management funds, in recent years, there has been debate in both U.S. and foreign governments about new rules or regulations, including increased oversight or taxation. As calls for additional regulation have increased, there may be a related increase in regulatory oversight of the investment activities of alternative asset management funds, including the Fund. Such oversight may cause the Fund to incur additional expense, may divert the attention of the General Partner, the Manager and its senior management and may result in fines if the Fund is deemed to have violated any regulations.

Although potential regulatory changes are not yet known, such changes could have a meaningful impact on the entertainment and media industries. The Fund may be adversely affected if new or revised legislation or regulations are enacted, or by changes in the interpretation or enforcement of existing rules and regulations imposed by the SEC, other U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets and their participants. Such changes could place limitations on the type of investor that can invest in the Fund or on the conditions under which the Fund may invest. Further, such changes may limit the scope of investing activities the General Partner and the Management Company may undertake for the Fund. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could be difficult and expensive and affect the manner in which the Fund conducts business, which could adversely affect the returns on the Fund's investments.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("**Dodd-Frank**") has changed and is expected to continue changing the regulatory environment for alternative investment funds including the Fund. Dodd-Frank expands the registration requirements for investment advisers managing such funds, as well as subjecting large funds to supervisory oversight for purposes of assessing their potential to contribute to systemic risk. Although the SEC and other U.S. regulatory agencies have begun issuing rules and regulations to implement the requirements of Dodd-Frank, many of the provisions of Dodd Frank still require the adoption of implementing regulations by the applicable agencies and, accordingly, it is not possible finally to assess Dodd-Frank's full impact on the Fund, the General Partner, the Management Company or, in some cases, the instruments in which the Fund may invest. As the regulatory environment evolves, the results may require the incurrence of additional expense and may divert the attention of the General Partner, the Management Company and the Shoreline Team. Compliance with any new laws or regulations could be difficult and may adversely affect the value of instruments held by the Fund or the ability of the Fund to pursue its investment strategy.

The Fund, the General Partner and/or the Management Company may also be subject to regulation in jurisdictions in which they engage in business. This Memorandum cannot address or anticipate every possible current or future regulation that may affect the General Partner, the Management Company, the Fund or their businesses. Such regulations may have a significant impact on the Limited Partners or the Fund's operations, including, without limitation, restricting the types of investments the Fund may make, requiring the Fund to disclose the identity of its investors or otherwise. Prospective investors are encouraged to consult with their own professional advisors regarding an investment in the Fund.

**Reliance on Personnel.** The Fund's investments will be managed by the General Partner and the Managers. The Limited Partners will not make decisions with respect to the selection, management, disposition or other realization of any investment, or any other decisions regarding the Fund's business and affairs. In order to safeguard their limited liability for the liabilities and obligations of the Fund, Limited Partners must rely entirely on the General Partner and the Managers to conduct and manage the affairs of the Fund. The success of the Fund will depend in part upon the skill and expertise of the professionals comprising the Shoreline Team. There can be no assurance that these professionals will continue to be associated with the General Partner throughout the term of the Fund.

**No Right to Control the Fund's Operations.** Investors, as Limited Partners, will have no right or powers to take part in the management of the Fund or any of its investments and will not receive detailed financial information issued by portfolio companies which is available to the General Partner. In order to safeguard their limited liability from the liabilities and obligations of the Fund, Limited Partners must rely entirely on the General Partner and the Investment Manager to conduct and manage the affairs of the Fund. Accordingly, no person should purchase Interests unless such person is willing to entrust all aspects of the management of the Fund to the General Partner and the Management Company.

**No Prior History.** Each of the Fund and the General Partner has recently begun operations and has no operating history or track record and has not identified any specific investments. Although the members of the Shoreline Team had successful experiences in areas they believe to be relevant to the ultimate success of the Fund, the Fund and the General Partner are new entities and there can be no assurance that one or more investments made on behalf of the Fund will not result in losses.

**Indemnification.** The General Partner and the Related Persons, as well as members of the Advisory Committee and certain other persons designated in the Partnership Agreement, will be entitled to indemnification from the Fund, except in certain limited circumstances. The assets of the Fund will be available to satisfy these indemnification obligations and Partners may be required to make capital contributions and return distributions to satisfy such obligations. Such obligations will survive the dissolution of the Fund.

**Diverse Limited Partner Group.** The Limited Partners will include taxable and tax-exempt entities and may include Persons organized in multiple jurisdictions. Because such investors may have different investment, tax and other interests with respect to their investments in the Fund, there may be conflicting interests between the Limited Partners relating to the nature of the investments made by the Fund, the structuring of investments, the timing of disposition of investments, and similar matters. As a result, decisions made by the General Partner may be more beneficial for one Limited Partner than for another, especially with respect to a Limited Partner's individual tax situation. In making decisions, the General Partner will consider the investment and tax objectives of the Fund, and not the investment, tax, or other objectives of any particular investor.

**Recycling; Reinvestment.** During the Commitment Period, the General Partner has the right to recall certain proceeds distributed by the Fund constituting a return of capital. In addition, during the Commitment Period, proceeds from realized investments constituting a return of capital may be redeployed or recycled in new investments by the Fund. To the extent such recalled or recycled amounts are reinvested, a Limited Partner will remain subject to investment and other risks associated with such investments.

**Capital Call Defaults; Exclusion From Investments.** If a Limited Partner fails to make a capital contribution when due and the contributions, if any, made by non-Defaulting Limited Partners are inadequate to cover the defaulted capital contribution, the Fund may be unable to pay its obligations when due. As a result, the Fund may be subjected to significant penalties that could materially adversely affect the returns to the non-Defaulting Limited Partners or be unable to complete investments. If a Limited Partner defaults it may be subject to customary default provisions under the Partnership Agreement, including the potential forfeiture of a portion of such Limited Partner's Interests.

A Limited Partner may be excluded from participating in any investment if the General Partner determines in its sole discretion that such participation might otherwise have certain materially adverse effects on an

investment, any of the Fund, the General Partner, any of their respective affiliates, or any portfolio company, including if such participation would be likely to result in violations of law or the imposition of a material regulatory, compliance, legal, tax or other similar burden. If a Limited Partner is excluded from participating in an investment it will not participate in the acquisition of the investment or in any income, gain, loss, deduction, credit or distribution with respect thereto. In the event that one or more Limited Partners are excluded from participating in an investment, the Limited Partners who are not excluded, all things being equal, may have a percentage ownership interest in certain investments that is greater than their percentage ownership interest in other investments and, their percentage interest in the Fund as a whole may be greater than the percentage interest of the excluded Limited Partners in the Fund as a whole.

**Side Letters.** The General Partner, the Management Company and/or the Fund may enter into other written agreements (“**Side Letters**”) with one or more Limited Partners. These Side Letters may entitle a limited partner to make an investment in the Fund on terms other than those described herein. Any such terms, including with respect to (i) opting out of particular investments; (ii) reporting obligations of the Fund; (iii) transfers to affiliates; (iv) co-investment opportunities; (v) withdrawal rights due to adverse tax or regulatory events; (vi) consent rights to certain Partnership Agreement amendments; or (vii) any other matters described herein, may be more favorable than those offered to any other Limited Partners.

**Exempt Pool.** Neither the General Partner nor the Management Company is currently required to register as a commodity pool operator. Unlike registered CPOs, the General Partner and the Management Company are not required to deliver to investors in the Fund the disclosure documents or certified annual reports contemplated by the CFTC rules. In addition, this Memorandum will not be required to be, and will not be, filed with the CFTC. The CFTC does not pass upon the merits of participating in the Fund or upon the adequacy or accuracy of this Memorandum. Consequently, the CFTC has not reviewed or approved, and will not review or approve this offering, this Memorandum, or any other offering memorandum for the Fund.

**Compliance with Anti-Money Laundering Requirements.** In response to increased regulatory concerns with respect to the sources of funds used in investments and other activities, the General Partner may request prospective and existing Limited Partners to provide additional documentation verifying, among other things, such Limited Partners’ identity and source of funds used to purchase Interests in the Fund. The General Partner may decline to accept a subscription if this information is not provided or on the basis of such information that is provided. Requests for documentation and additional information may be made at any time during which a Limited Partner holds an Interest. The General Partner may be required to provide this information, or report the failure to comply with such requests, to appropriate governmental authorities, in certain circumstances without notifying the Limited Partners that the information has been provided. The General Partner will take such steps as it determines may be necessary to comply with applicable law, regulations, orders, directives or special measures. Governmental authorities are continuing to consider appropriate measures to implement anti-money laundering laws and at this point it is unclear what steps the General Partner may be required to take; however, these steps may include prohibiting a Limited Partner from making further contributions of capital to the Fund, depositing distributions to which a Limited Partner would otherwise be entitled to in an escrow account or causing the withdrawal of a Limited Partner from the Fund.

**Certain Tax Risks.** Certain risks related to tax matters are discussed in Section IX, “*Regulatory and Tax Matters*,” which prospective investors are requested to read carefully. Prospective investors are urged to consult their own tax advisors with respect to their own tax situation and the effects of this investment. There can be no assurance that the structure of the Fund or any investments by the Fund will be tax efficient for any particular investor. There can be no assurance that the Fund will distribute sufficient cash to cover the full tax liabilities of a particular Partner’s pro rata share of the taxable income of the Fund. Furthermore, in general, tax laws, rules, and procedures are extremely complex and are subject to change, which in some cases may have retroactive effect.

**Withholding Tax.** To the extent that the Fund is required to withhold and pay certain amounts to taxing authorities on behalf of or with respect to its Partners (i) if the amount required to be withheld or paid by the Fund on behalf of or with respect to a Partner exceeds the amount available for distribution to such Partner,



such Partner may be required to pay such amount to the Fund; and (ii) each Limited Partner will indemnify the Fund and the General Partner, and hold them each harmless, for any liability with respect to taxes, penalties or interest required to be withheld or paid to any taxing authority by the Fund or the General Partner.

**Annual Tax Information.** It is highly likely that annual tax information from the Fund's investments will not be received in sufficient time to permit the Fund to incorporate such information into its annual tax information and distribute such information prior to April 15 of each year. As a result, Limited Partners who are required to file tax returns by certain deadlines may be required to obtain extensions for filing tax returns each year.

**Lack of Separate Representation.** O'Melveny & Myers LLP represents the sponsor in connection with the organization of the Fund. It is not anticipated that separate counsel for the Fund will be engaged in connection with the organization or operation of the Fund. To the extent that O'Melveny & Myers LLP represents the Fund, it shall not be deemed to represent, or otherwise owe any obligations or duties to, the Limited Partners. Prospective investors must consult with their own counsel with regard to those matters.

THE FOREGOING LIST OF RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OR EXPLANATION OF THE RISKS INVOLVED IN AN INVESTMENT IN THE FUND. PROSPECTIVE LIMITED PARTNERS SHOULD READ THIS ENTIRE CONFIDENTIAL MEMORANDUM AND THE PARTNERSHIP AGREEMENTS AND CONSULT WITH THEIR OWN ADVISERS BEFORE DECIDING WHETHER TO INVEST IN THE FUND. AN INVESTMENT IN THE FUNDS IS SUITABLE ONLY FOR SOPHISTICATED EXPERIENCED INVESTORS.

## **ITEM 9**

### **Disciplinary Information**

There are no legal or disciplinary events required to be disclosed pursuant to this Item 9.

## **ITEM 10**

### **Other Financial Industry Activities and Affiliations**

**Affiliates and Affiliated Relationships.** Shoreline is an affiliate of the Affiliated GP and is the whole owner of the Consulting Firms. As noted above, Affiliated GP serves as the general partner of Fund II and Fund III, but has delegated management authority over Fund II and Fund III to Shoreline. Shoreline has entered into the Consulting Agreements with each of the Consulting Firms, pursuant to which the Consulting Firms provide Shoreline with certain services. Shoreline will compensate the Consulting Firms for these services. In certain cases, the Consulting Firms may be hired as Service Providers (as defined below) to provide services with respect to specific investments or other issues.

**Conflicts of Interest.** While Shoreline believes that its interests are generally aligned with those of the Funds, it is possible that conflicts of interest between Shoreline and/or its affiliates and a Fund might arise. In dealing with conflicts in general, if Shoreline believes a transaction or circumstance raises a potential conflict of interest, it may submit the transaction or circumstances to the applicable Fund's Advisory Committee, a body composed of investors in the Fund unaffiliated with Shoreline, for consideration and approval. In addition, certain types of transactions and agreements entered into by Shoreline on behalf of the Funds require the approval of the applicable Advisory Committee under the Funds Limited Partnership Agreements.

**Carried Interest.** As noted above in Section 5, Shoreline receives a carried interest with respect to Fund I and Shoreline's affiliate, Affiliated GP, receives a carried interest with respect to Fund II and Fund III. As discussed in Section 6, above, the carried interest allocated to Shoreline or Affiliated GP may motivate

Shoreline to take greater investment risks or to favor one fund, such as a fund that has satisfied its preferred return "hurdle rate" over another that has not. -In the case of the Funds, this conflict is mitigated by the Fact that Fund I's investment period ended prior to the initial closing of Fund II.

*Other Activities and Businesses.* To the extent permitted in the Funds' Partnership Agreements and Shoreline's policies and procedures and code of ethics, discussed in Section 11 below, Shoreline, its affiliates and its related persons may exercise investment responsibility or otherwise engage, directly or indirectly, in any other business, irrespective of whether any such business is similar to, or identical with, the business of the Funds, which may include purchasing, selling, holding or otherwise dealing with investments either as adviser or for their own account. An investor will not, solely by reason of being a partner in a Fund, have any right to participate in any manner in any profits or income earned or derived by or accruing to Shoreline, its affiliates or any related person from the conduct of any other business or activity or from any transaction or other investment effected by Shoreline, its affiliates or related persons.

*Service Agreements with a Fund.* From time to time, as deemed necessary by Shoreline, a Fund may enter into service agreements (each, a "**Service Agreement**") with affiliates or subsidiaries of Affiliated GP and/or Shoreline or third-parties designated by Shoreline ("**Service Companies**"), pursuant to which such Service Companies will provide services to one or all of the Funds. For instance, when Shoreline is exiting an NPL portfolio, it typically hires a debt servicer to handle loan documents, negotiations with borrowers and guarantors, oversee the filing of lawsuits, and finding exits for loans across the entire portfolio. In some cases, a Shoreline affiliate may perform certain of this work in-house and enter into a Service Agreement with a Fund.

Shoreline will seek to ensure that each Service Company is qualified to provide the applicable services to the applicable Fund and that the cost of such services are fair and reasonable to the Fund. Shoreline will seek to ensure that the cost of services provided by a Service Company will not be less favorable than could be obtained in arm's length negotiations with unrelated third parties for similar services. Any Service Agreement with Shoreline, the Affiliated GP or their affiliates or third parties that satisfies certain criteria set forth in the applicable Limited Partnership Agreement will not require the prior approval from or consent of the Advisory Committee, and the Advisory Committee will be deemed to have consented to each such Service Agreement.

All Services Agreements will be presented to the Advisory Committee of the relevant Fund each year. In addition, any member of a Fund's Advisory Committee may request annually that Shoreline provide to the Advisory Committee evidence of the current market rate terms and fees for services similar to those provided pursuant to any agreement between the applicable Fund and Shoreline, Affiliated GP and/or its affiliates ("**Market Rate Fees**").

The Advisory Committee may contest the terms and/or the amount of the service fees paid or payable pursuant to such agreement. In such event, unless Shoreline demonstrates otherwise to the reasonable satisfaction of the Advisory Committee, Shoreline will promptly pay to the Fund the amount of the excess service fees. In the event that the Advisory Committee and Shoreline cannot come to an agreement as to whether such fees are equal to or lower than Market Rate Fees, an independent valuation firm reasonably acceptable to both Shoreline and the Advisory Committee will be appointed at the Fund's expense to determine whether such fees are higher than Market Rate Fees; provided, that, if such valuation firm determines that such fees exceed such Market Rate Fees by more than two percent (2%) of the aggregate capital contributions used by the Fund to purchase the related portfolio investment, Shoreline will bear the cost of such valuation firm. Any such determination by such valuation firm will be conclusive and binding as to a Fund (and the investors therein) and Shoreline.

As a result of the fees payable under Service Agreements, Shoreline may have an incentive to appoint an affiliated Service Provider to perform services that it would otherwise have performed. The Advisory Committee's annual review and ability to contest such fees, however, mitigates this conflict to a significant extent.

### *Follow-On and Parallel Funds.*

Following a Fund's Commitment Period and in certain other limited circumstances outlined in the relevant Limited Partnership Agreement, Shoreline may organize, manage or serve as a principal of one or more follow-on funds (a "**Follow-On Fund**"). Until the termination of the Commitment Period, a Follow-On Fund may only co-invest with a Fund with respect to investments for which the remaining capital commitments of all partners is insufficient to make such investment taking into account the Fund's and the Follow-On Fund's investment focus, capacity for new investments, diversification requirements, scheduled termination date, and any other factors Shoreline determines to be relevant. Any such co-investment by a Follow-On Fund will be on terms and conditions that are the same or worse in all material respects than those of a Fund, unless the Fund is legally or contractually prohibited from making such investment or such investment could have a material adverse effect on the Fund or Shoreline.

During a Fund's Commitment Period, neither Shoreline nor any other related person will invest in (other than on behalf of the Funds) or offer to any person (other than the Funds) any investment opportunity of a kind suitable for a Fund unless such investment opportunity was first offered to the Funds. Without limiting the foregoing, Shoreline will (x) allocate all investment opportunities among the Funds and/or any Follow-On Fund in a manner which Shoreline determines, in its sole discretion, is fair and equitable taking into account each such investment vehicle's investment focus, capacity for new investments, diversification requirements, scheduled termination date, and any other factors Shoreline determines to be relevant to such allocation decision, (y) make all determinations in respect of the Fund's investments including determinations as to value or disposition of such investments on the same basis and (z) otherwise treat the Funds and any Follow-On Funds on a fair and equitable basis in respect of investments.

To the extent permitted by the Funds Limited Partnership Agreements, Shoreline may (but is not obligated to) provide opportunities to one or more limited partners and third parties, including affiliates of Shoreline, to co-invest with the Fund. Shoreline and its affiliates may charge carried interest, management and other fees to co-investors including, without limitation, limited partners and third parties, with respect to any co-investment, and may make an investment, or otherwise participate, in any vehicle formed to structure a co-investment in connection therewith.

In order to facilitate investments by certain investors, Shoreline may create one or more parallel funds (each a "**Parallel Fund**"), the structure of which may differ from that of a Fund but which will generally invest proportionately on a going-forward basis in all of the Fund's transactions on substantially the same terms and conditions as the Fund except to the extent reasonably necessary to address the particular tax, legal or regulatory considerations of the Parallel Fund or investors in such Parallel Fund. Parallel Funds may include, without limitation, offshore funds open to non-U.S. investors and certain U.S. tax-exempt investors. Parallel Funds will generally have investment strategies and investment policies substantially similar to those of the relevant Fund.

## **ITEM 11**

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

#### Code of Ethics

Shoreline has adopted a Code of Ethics (the "**Code**") designed to ensure compliance with Rule 204A-1 under the Advisers Act. The Code applies to all partners, principals, directors, officers, employees and supervised persons of the Adviser, the Affiliated GP and each Consulting Firm (each a "**Covered Person**"). The Adviser and its affiliates strive to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. Accordingly, the Code incorporates the following general principles that all Covered Persons are expected to uphold:

- Covered Persons must at all times place the interests of clients first;

- all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of a Covered Person's position of trust and responsibility must be avoided;
- Covered Persons must not take inappropriate advantage of their positions;
- information concerning the portfolios and financial circumstances of clients must be kept confidential.

Finally, Covered Persons are required to comply with applicable federal securities laws at all times.

Violations of the Code are subject to the imposition of sanctions, up to and including termination of employment with the Adviser or the relevant affiliate. A copy of the Code of Ethics is available for advisory clients and prospective clients. You may request a copy by emailing [kathleen.ou@shoreline-capital.com](mailto:kathleen.ou@shoreline-capital.com).

#### Personal Trading Reporting in the Code

In order to ensure that personnel of Shoreline do not abuse inside information or information about client transactions, Shoreline and its affiliates maintain a Restricted Trading List ("**RTL**"). The RTL is a list of securities and security types subject to restrictions on trading, which list is furnished to personnel on a weekly basis.

#### Material, Non-Public Information

The Code includes policies and procedures concerning "inside information" (the "**Insider Trading Policies**") that are designed to prevent the misuse of material, non-public information. Covered Persons are required to certify to their compliance with the Code, including the Insider Trading Policies, on a periodic basis. The Insider Trading Policies prohibit the Adviser and Covered Persons from trading for Clients or themselves, or recommending trading, in securities of a company while in possession of material, non-public information ("**Inside Information**") about the company, and from disclosing such information to any person not entitled to receive it.

By reason of their various activities, Adviser personnel may have access to Inside Information and, as a result, be restricted from effecting transactions in certain investments that might otherwise have been initiated. For example, there may be certain cases where the Adviser or its personnel receive Inside Information due to their various activities on behalf of the portfolio companies in which the Adviser has made investments, which could result in either limited liquidity in the investment (*i.e.*, an inability to sell the investment as a result of having the Inside Information) or in the Adviser or its personnel being prohibited from using such information for the benefit of the Clients. The Adviser seeks to minimize those cases whenever possible, consistent with applicable law and its Insider Trading Policies, but there can be no assurance that such efforts will be successful.

#### Participation in Client Transactions

Shoreline does not engage in cross trades or principal transactions. Shoreline generally does not co-invest with the Funds, nor does it permit its personnel to invest in securities held or under consideration by a Fund.

### **ITEM 12 Brokerage Practices**

Shoreline does not generally provide advice with respect to securities transactions that require execution through a broker. And it does not have any soft-dollar arrangements and does not receive any soft-dollar benefits.

Were Shoreline to do so, however, it would have the discretion to select a broker for a Fund's transactions. In placing portfolio transactions that require execution through a broker, Shoreline must use reasonable diligence to ascertain the "best" market price for all securities bought or sold in that market so that the price to the Funds is as favorable as possible under prevailing market conditions. The determinative factor is whether the transaction represents the best qualitative execution for a Fund and not whether the lowest possible commission cost is obtained. Shoreline would consider the full range of quality of the broker's service in selecting brokers to meet best execution obligations and may not pay the lowest commission rates available. The Adviser generally takes the following factors into account to select brokers for portfolio transactions: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any), (ii) the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution, (iii) the financial strength, integrity and stability of the broker, (iv) the broker firm's risk in positioning a block of securities, (v) the quality, comprehensiveness and frequency of available research services considered to be of value, and (vi) the competitiveness of commission rates in comparison with other brokers satisfying the Adviser's other selection criteria. Shoreline is not required to weigh these factors equally.

### **ITEM 13**

#### **Review of Accounts**

The Adviser monitors the composition of the Funds' portfolio and the status of their respective investments regularly. Each investment, led by at least one managing partner, is at least assigned to two asset managers for checks-and-balances purposes. Each week, the Firm holds an investment review meeting where each asset manager will report on the status of an investment and possible exits therefrom. The meeting may include discussions on the performance of investments, any obstacles to the successful realization of returns, and follow-on investments that may be made. Each month, financial data on performance and net asset value of investments are provided to the Finance Department, which is then prepared in a basic unaudited report for internal review. The Finance Department communicates regularly with management about the foregoing reports.

Shoreline will generally provide investors with (i) audited annual reports within 90 days after the end of each fiscal year, (ii) quarterly reports with unaudited financial statements within 45 days after the end of each fiscal quarter, and (iii) annual tax information necessary to complete the investors' income returns.

### **ITEM 14**

#### **Client Referrals and Other Compensation**

The Adviser does not receive any economic benefit from a third party for providing investment advice or other advisory services to the Funds.

In March 2012 Shoreline entered into an agreement with Eaton Partners, LLC ("Eaton") for a limited mandate to help raise part of Fund II. When Fund II was closed to new investors in November 2012, fees owed to Eaton is \$500,000, in addition to out-of-pocket expenses such as travel.

### **ITEM 15**

#### **Custody**

Shoreline has "custody" of the assets of each Fund under Rule 206(4)-2 of the Advisers Act. Cash and cash management instruments held by Fund I, Fund II, and Fund III are maintained with Silicon Valley Bank (Fund I & Fund II) and Citibank (Fund III), which constitutes "qualified custodians" under the Advisers Act. Haywood Securities is the custodian of stock of an investment in Fund I. In order to comply with the Advisers Act's "custody rule," the Adviser ensures that both Funds are audited each year by Ernst & Young Shanghai, an independent public accountant registered and inspected by the U.S. Public Company Accounting Oversight Board. The Adviser also ensures that audited financial statements for each Fund are provided to investors in that Fund within 90 days of the end of the Fund's fiscal year (December 31).

**ITEM 16**  
**Investment Discretion**

Shoreline Capital Management has full discretionary authority with respect to the Funds' investments, subject to the investment objectives, guidelines and limitations in the Offering Document and Limited Partnership Agreement of each Fund.

**ITEM 17**  
**Voting Client Securities**

Although the Adviser does not expect to be called upon to vote proxies, it has the authority to vote proxies on behalf of the Funds in certain cases. In the event the voting of proxies is required, the Adviser has adopted a policy governing the voting of proxies that is designed to ensure that the Adviser votes securities held by the Funds in the Funds' best interest. The Adviser generally will vote proxies so as to promote the long-term economic value of the underlying securities. Each proxy proposal will be considered on its own merits, and an independent determination will be made whether to support or oppose management's position.

**ITEM 18**  
**Financial Information**

Item 18 is not applicable.

**ITEM 19**  
**Requirements for State Registered Advisers**

Item 19 is not applicable.