



Athyrium Capital Management, LP

March 24, 2016

This *brochure* provides information about the qualifications and business practices of Athyrium Capital Management, LP, an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this *brochure*, please contact us at 212-402-6925. The information in this *brochure* has not been approved or verified by the SEC or by any *state securities authority*.

Additional information about Athyrium Capital Management, LP also is available on the SEC’s website at www.adviserinfo.sec.gov.

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

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Item 2. Material Changes

The following summary only discloses material changes made to the *brochure* since the Adviser's (as defined in Item 4) previous annual update to its *brochure*, which was filed in March 2015. Various material revisions were made to Items 4, 8, and 11 to accurately update and describe the policies, procedures and practices of the Adviser.

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Item 4. Advisory Business

Athyrium Capital Management, LP (“ACM”) is a limited partnership under the Delaware Revised Uniform Limited Partnership Act. ACM commenced operations as an investment adviser on December 9, 2008 and its principal place of business is in New York, New York. ACM began its operations as Athyrium Capital Management, LLC, which converted from a Delaware limited liability company to a Delaware limited partnership pursuant to a Certificate of Conversion filed with the Delaware Division of Corporations on January 13, 2015. Jeffrey A. Ferrell and Jeremy D. Lack are the principal owners of ACM (the “Principals”).

For purposes of this brochure, the “Adviser” means ACM, together (where the context permits) with its affiliates that provide advisory services to and/or receive advisory fees from the Clients (as defined below). Such affiliates are generally expected to be under common control with ACM, but possess a substantial identity of personnel and/or equity owners with ACM and are subject to the same compliance manual, policies and procedures. These affiliates may be formed for tax, regulatory or other purposes in connection with the needs of the Adviser’s clients or may serve as general partners of certain of the Adviser’s clients.

The Adviser provides advisory services both on a *discretionary* and *non-discretionary basis* to its clients, which include specific tailored vehicles (the “Specific Vehicles”) and pooled investment vehicles (the “Funds,” and together with the Specific Vehicles, the “Clients”) intended for sophisticated investors and institutional investors, in accordance with the applicable limited partnership agreement (or analogous governing document) of such Client, or separate investment and advisory, investment management or portfolio management agreements (each, an “Advisory Agreement”). The Adviser provides a full range of private equity style services including sourcing, due diligence, negotiation, structuring, monitoring and valuation.

The Adviser specializes in the healthcare sector and is primarily focused on longer term investments including private equity, public equity and structured investments. Structured investments are investments composed of one or more of the following instruments: convertibles, loans, bonds, preferred stock, common stock, warrants, and royalties. The Adviser will engage in primary and secondary transactions on behalf of its Clients.

Investment advice is provided directly to the applicable Client, subject to the discretion and control of the general partner, and not individually to the investors in any Client. Services are provided to the Clients in accordance with the Advisory Agreements with the Clients and/or the governing documents of the applicable Client. Investment restrictions for the Clients, if any, are generally established in the organizational or offering documents of the applicable Client and/or side letter agreements negotiated with investors in the applicable Client. Clients may impose restrictions on investing in certain securities or certain types of securities.

The Adviser provides advice to its Clients based on specific investment objectives and strategies. Under certain circumstances, the Adviser may agree to tailor advisory services to the individual needs of particular Clients. Currently, the Adviser tailors its advisory services in the following manner: by providing only a subset of services or by providing recommendations to Clients who maintain discretion and control over their assets.

As of December 31, 2015 the Adviser had approximately \$1,738.2 million of client assets under management. The Adviser has calculated this number in the same manner as it calculates regulatory assets under management for purposes of Part 1 of this Form ADV and includes the aggregate amount of

capital commitments to the Funds that were contractually callable as of such date and amounts outstanding under credit facilities of the Funds as of such date. As of December 31, 2015, the Adviser managed approximately \$1,730.9 million on a *discretionary basis* and \$7.2 million on a *non-discretionary basis*. The Adviser considers its management of the client accounts comprising such \$1,730.9 million to be on a *discretionary basis* because the Adviser has the authority to determine the securities and other assets to be purchased and sold for such client accounts (subject to restrictions on its activities set forth in the applicable investment management agreement or sub-advisory agreement, including the requirement of approval by one or more investment committees, and any written investment guidelines).

Item 5. Fees and Compensation

The Adviser usually charges each Client an investment management fee based on the value of the Client's assets under management. Management fees are negotiated on an account by account basis and generally relate to the services provided by the Adviser. Management fees are generally in the range of 1 percent to 2 percent per annum. From time to time, and particularly for smaller investments, the Adviser can charge a flat fee independent of the Client's assets under management.

The Funds are generally charged a management fee payable quarterly in advance which is based upon committed capital during the investment period. After the end of the investment period, the management fee is generally a function of remaining invested capital or remaining fair value.

Where applicable, fees and expenses charged to the Clients are generally deducted from the assets of the Client, subject to the specific terms in each Client's applicable governing documents and/or Advisory Agreements.

Some Clients have entered into pledge fund-like arrangements with the Adviser where no management fee is charged until an investment is completed by the Client. Once an investment is completed, fees are charged six months in arrears usually based on net asset value or investment cost remaining at the end of the six month period.

Some Clients may be required to pay the Adviser's fees in advance. Carried Interest distributions (as discussed in Item 6 below) are not generally made in advance, except that, in certain circumstances, the Adviser may receive an advance in an amount sufficient to allow it to discharge its and its *related persons'* tax liabilities with respect to such distributions.

Generally speaking, with illiquid assets funds exist for fixed terms, and accordingly the Adviser's Advisory Agreements with the Funds can only be terminated by the Fund under a limited number of circumstances including fraud, gross negligence or bankruptcy of the Adviser. Agreements may include the ability for a Fund to terminate the Advisory Agreement without cause. Specific payment and repayment arrangements which may arise upon termination of an Advisory Agreement are, if applicable, addressed in the governing documents and/or the Advisory Agreements of each applicable Client.

In addition, subject to the applicable Clients' governing documents and Advisory Agreements, certain Clients have agreed to allow their investment managers, including the Adviser, to retain collectively up to 20 percent of any arrangement fees generated as a result of structuring a transaction. In these situations, the remaining 80 percent of the arrangement fee is held and applied to reduce management fees payable

to such investment managers, including to the Adviser. These fees are generally the result of a loan or loan syndication.

In addition to paying investment management fees and, if applicable, Carried Interest or other compensation, subject to the applicable provisions of each Client's offering memorandum and/or governing documents, certain Clients are also subject to certain other expenses, including, but not limited to: (i) accounting, counsel, consulting, and other out-of-pocket fees, costs and expenses of professional advisers, such as legal counsel (including unreimbursed fees, costs and expenses in connection with acquiring investments or proposed investments on behalf of the Client and disposing of those investments), administrators, custodians, depositaries or nominees, consultants, valuation experts, appraisers and accountants; (ii) audit and client accounting and client administration expenses, certification fees and any other expenses associated with the preparation of the Client's financial statements, tax returns and Schedules K-1 (or equivalent information); (iii) taxes, fees or other governmental charges levied against the Client; (iv) expenses associated with the preparation, printing and distribution of reports to the investors in the Client and costs associated with Client and advisory committee meetings; (v) investment banking and similar consulting and professional fees associated with the sourcing, diligence, acquisition, holding, monitoring and disposition of the Client's investments, including unconsummated investments and broken deal expenses and extraordinary expenses (such as litigation, if any); (vi) all other out-of-pocket fees, costs and expenses relating to the sourcing and diligence of potential investments and the actual or proposed acquisition, holding, monitoring or disposition of securities and other financial instruments (including, without limitation, subscription costs for market or industry research, subscription costs for related software, brokerage commissions, finder's fees, custody costs, hedging costs and the costs of travel and lodging (including, as permitted by the Adviser's policies and procedures, first class travel), including for industry conferences); (vii) insurance, indemnity or litigation expenses relating to the Client's activities (and any judgments or settlements paid in connection therewith); (viii) placement fees; (ix) the costs of forming any alternative investment vehicle; (x) all other costs incurred in connection with the administration of the Client (including (a) any registration, regulatory, or licensing fees incurred in connection with operating a Client, (b) expenses associated with the use of paying agents and local representatives as may be necessary or appropriate to comply with applicable local law, and (c) expenses incurred in connection with the winding up or dissolution of a Client) or that are authorized by the Client's governing documents or approved by a majority in interest of the Client's investors; (xi) borrowings and interest expenses on borrowings and all expenses incurred in negotiating, entering into, effecting, maintaining, varying and terminating any borrowing or guarantee incurred by the Client (xii) any of the foregoing types of expenses incurred in connection with the organization, administration, operation and activities of applicable feeder funds or parallel or alternative fund vehicles; and (xiii) expenses incurred by any applicable sub-advisor or its affiliates, including any such expenses incurred in connection with the administration, operation and activities of a feeder fund controlled by such sub-advisor or an affiliate thereof.

Depending on the terms of each Client's Advisory Agreements and governing documents, some of the Client's expenses that would otherwise be payable by the Adviser may be reduced through the use of "soft" or commission dollars to the extent the Adviser decides to engage in "soft dollar" transactions in the future, as discussed in Item 12 below.

Client assets may be invested in pooled investment vehicles. In these cases, Clients will bear their pro rata share of the underlying fund's operating and other expenses including, in addition to those listed above: sales expenses; legal expenses; internal and external accounting, audit and tax preparation expenses; and organizational or winding-up expenses. Client assets may be invested in money market mutual funds, exchange-traded funds, or other registered investment companies. In these cases, the Client will bear its pro rata share of the investment management fee and other fees of such funds, which are in addition to the investment management fee paid to the Adviser. Client assets may be invested in a master-

feeder structure. Feeder funds bear a pro rata share of the expenses associated with the related master funds. In addition, Clients will incur brokerage and other transaction costs. Please refer to Item 12 of this *brochure* for a discussion of the Adviser's brokerage practices.

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

The Adviser and its investment personnel provide investment management services to multiple portfolios for multiple Clients. The Adviser and certain of its personnel are entitled to receive Carried Interest (as defined below) and other forms of performance-based compensation from certain of the Clients.

Examples of performance-based compensation include, but are not necessarily limited to:

- a performance allocation where the allocation is calculated as a percentage of a Client's profits, taking into consideration both realized and unrealized profits (sometimes referred to as an incentive allocation or carried interest);
- a high water mark where the Adviser receives a performance allocation only on profits of a Client in excess of certain levels; and
- hurdle rates where the Adviser does not charge a performance allocation until the Client's performance over certain periods of time exceed certain benchmark rates or fixed percentages.

With respect to certain Clients, a portion of the profits of each such Client is distributed to its general partner, if any, as "carried interest" (the "Carried Interest"). This compensation may be distributed to the Adviser, to a *related person* of the Adviser, or to certain of the Adviser's strategic partners. Under certain circumstances, receipt of such Carried Interest may be subject to a hurdle rate, as described above. Carried Interest and hurdle rates are negotiated on an account-by-account basis.

Carried Interest paid by a Client is indirectly borne by investors in such Client. Certain Clients and investors in such Clients may incur lower or no Carried Interest. The payment by some, but not all, Clients of Carried Interest or the payment of Carried Interest at varying rates (including varying effective rates based on the past performance of a Client) may create an incentive for the Adviser to disproportionately allocate time, services or functions to Clients paying Carried Interest or Clients paying Carried Interest at a higher rate, or allocate investment opportunities to such Clients. The Adviser has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. The Adviser reviews investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. Please also see Item 11 below regarding allocation for additional information relating to how conflicts of interests are generally addressed by the Adviser.

Item 7. Types of Clients

The Adviser's Clients generally consist of individuals, banks and thrift institutions, private funds, pension and profit sharing plans, trusts, estates, charitable organizations, endowments, corporations and other business entities.

With respect to any Fund Client, any initial and additional subscription minimums are disclosed in the offering memorandum and/or the governing document for the applicable Fund.

Set forth below are the minimum account requirements for the Adviser's accounts:

Pooled Investment Vehicles

Investors that are *United States persons* must be "accredited investors" under Regulation D of the Securities Act of 1933, as amended (the "1933 Act"), "qualified purchasers" under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and "qualified clients" eligible to be charged performance fees under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). The minimum investment required by an investor varies depending on the Fund and in each case is subject to waiver by the Adviser. Investors should review the offering memorandum and the applicable governing documents for each relevant private fund for further information with respect to minimum requirements for investment.

Specific Vehicles

The Adviser may create specific tailored vehicles on a case-by-case basis, such as the Specific Vehicles. These customized vehicles are designed to meet the specific risk and return goals, liquidity restraints, factor sensitivity targets and other requirements of the applicable investors.

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

Methods of Analysis & Investment Strategies

The Adviser is focused primarily on investments in the life sciences sector (the "Targeted Sector"). The methods of analysis are all fundamental in nature and are based on a variety of factors including, among others: market opportunity, downside risk, quality of management, collateral value, entry valuation, regulatory risk, clinical data, competition / market dynamic, intellectual property, and exit prospects.

The Adviser will frequently engage outside consultants or experts to assist in the evaluation of any opportunity including: reimbursement consultants, intellectual property attorneys, regulatory consultants and other scientific or medical experts.

The Adviser is focused on investments in the life sciences sector which is a fundamental buy and hold strategy. Frequently the investments will generate meaningful current income as part of the investment structure.

The Adviser's approach to analysis is private equity-like in nature and includes: sourcing, due diligence, structuring and negotiating transactions, and actively monitoring portfolio investments.

The Adviser occasionally will engage in hedging transactions designed to reduce interest rate risk or foreign currency risk or to otherwise reduce risk in certain investments.

The Adviser's investment program often utilizes leverage which involves the borrowing of funds from brokerage firms, banks and other institutions in order to be able to increase the amount of capital available for investments or to facilitate the acquisition and disposal of investments (e.g. line of credit, bridge loans, etc.)

Risk of Loss

Potential investors should be aware that investing in securities involves a substantial degree of risk and, therefore, should be undertaken only by investors capable of evaluating the risks and bearing the risks of such investment, including the risk of a complete loss of their investments. Prospective investors should carefully consider the following discussion, which enumerates certain material risk factors with respect to the Clients. **For more information on the particular risk factors which may apply to an investment in each Client, please carefully review the offering memorandum and governing documents of the applicable Client.**

The risks set out below are not the only risks the Clients face. Additional risks and uncertainties may also impair the Clients' operations and performance. If any of the following events occur, the Clients' business, financial condition, results of operations and prospects could be materially adversely affected. In such case, performance could decline, such Client's ability to achieve its investment objective could be negatively impacted and investors may lose all or part of their investment.

General Risks of Investing in the Clients

Suitability of Investing in the Clients; No Assurance of Investment Returns

Investing in securities involves a substantial degree of risk. An investment is suitable only for sophisticated investors and an investor must have the financial ability to understand and the willingness to accept the extent of its exposure to the risks and lack of liquidity inherent in an investment in the Clients. Investors with any doubts as to the suitability of an investment in the Clients should consult their professional advisors to assist them in making their own legal, tax, accounting and financial evaluation of the merits and risks of investment in the Clients in light of their own circumstances and financial condition. There can be no assurance that the Clients will be able to implement their investment strategy and investment approach or achieve their investment objectives or that an investor will receive a return of its capital. There can be no assurance of liquidity and no assurance that the Clients will be able to make distributions or other payments or generate returns for its investors or that the returns will be commensurate with the risks of making the types of investments described herein. An investment in the Clients should only be considered by persons who can afford a loss of their entire investment.

Lack of Liquidity for the Interests; Lack of Withdrawal Rights

Interests in the Clients (the "Interests") have not been, and are not contemplated to be, registered under the 1933 Act, any state securities laws or the securities laws of any other jurisdiction, and may not be transferred unless registered under applicable federal, state and/or other securities laws or unless an exemption from registration under such laws is available. No public market exists for the Interests and

none is expected to develop. Accordingly, it may be difficult to obtain reliable information about the value of the Interests. An investor will not generally be permitted to assign or transfer its Interests without the prior written consent of the Adviser, which may be given or withheld in the Adviser's sole and absolute discretion. Voluntary withdrawals from certain Clients will not be permitted except under the very limited circumstances set forth in applicable Client's governing documents. Consequently, investors will likely not be able to liquidate their investments prior to the end of a Client's term and, therefore, must be prepared to bear the risks of owning Interests and contributing capital for an extended period of time. An investment in the Clients is appropriate for sophisticated investors only.

In-Kind Distributions

Investors should be aware that dispositions may also take the form of in-kind distributions to the investors. When such investments are distributed to the investors, such investors would generally be unable to protect their interests as effectively as the Client. In certain circumstances provided for in certain Client's organizational documents, securities or other assets of the Client may be distributed that are not marketable or are otherwise illiquid. Investors may incur costs and expenses associated with disposing of such investments, which would reduce the cash such investor would ultimately receive. Investments distributed in kind will likely not be readily marketable or saleable and may, as a result, have to be held by investors for an indefinite period of time. The risk of loss and delay in liquidating securities or other assets distributed in-kind will be borne by the investors in the Clients, with the result that such investors may receive less cash than was reflected in the fair value of such securities as determined by the general partner of the Client pursuant to the Client's organizational documents.

Phantom Income

Each investor in a fund vehicle that is subject to U.S. tax will be, and other limited partners subject to tax in other jurisdictions may be, required to take into account its distributive share of all items of partnership income, gain, loss, deduction and credit, whether or not there are any distributions. Because of the nature of the Clients' investment activities (e.g., the Clients may receive paid-in-kind interest or acquire obligations issued with original issue discount), the Clients may generate taxable income in excess of cash distributions to investors and no assurance can be given that the Clients will make cash distributions to cover such tax liabilities as they arise. Accordingly, each investor should ensure that it has sufficient cash flow from other sources to pay all tax liabilities resulting from such investor's ownership of Interests in the Clients.

U.S. Dollar Denomination of Interests

Interests in the Clients are typically denominated in U.S. dollars. Investors subscribing for Interests in any country in which U.S. dollars are not the local currency should note that changes in the value of exchange between U.S. dollars and such currency may have an adverse effect on the value, price or income of such investors' investments. In addition, there may be foreign exchange regulations applicable to investments in foreign currencies in certain jurisdictions where Interests in the Clients are offered. Each prospective investor should consult with his or her own counsel and advisors as to all legal, tax, financial, regulatory and related matters concerning an investment in the Interests.

Absence of Regulatory Oversight

The Clients are not registered with the SEC as investment companies pursuant to the Investment Company Act, generally in reliance on an exception under Section 3(c) of the Investment Company Act. Accordingly, the Clients are not subject to the provisions of the Investment Company Act (which, among other things, require registered investment companies, in certain circumstances, to have boards of directors comprised of a majority of disinterested directors, require securities to be held in custody by a bank or broker in accordance with rules requiring the segregation of securities and regulate the relationship between the adviser and the investment company). The Adviser is not currently registered, but may in the future register with the Commodity Futures Trading Commission and the National Futures Association (“NFA”) as a “commodity pool operator” or a “commodity trading advisor.” The Adviser is registered as an investment adviser under the Advisers Act.

Capital Call Facility Debt

Certain Clients utilize indebtedness that is secured by commitments. Such borrowings are generally secured by pledge or other collateralization of the obligations of the Clients’ investors to make capital contributions to the Clients. This will likely limit investors’ ability to use their interests in the Clients as collateral for other indebtedness. In addition, the inability of the Clients to repay borrowings under a credit facility secured by unpaid capital obligations could enable a lender to take action against any investor to the extent of its then unpaid capital obligations in the applicable Client. Further, certain Clients’ indebtedness, or certain derivatives transactions entered into by a Client, is structured in a way that (i) certain parallel fund vehicles are jointly responsible on a cross-collateralized basis for the repayment of the indebtedness or any obligations related to such derivatives transactions and (ii) the commitments of the investors in a particular parallel fund vehicle are pledged or otherwise collateralized to secure indebtedness obtained for the benefit of other parallel fund vehicles. Investors whose commitments have been pledged or otherwise collateralized may be called upon to fund their entire commitment to repay indebtedness, and the failure of other investors in any parallel fund vehicle to honor their commitments may result in a particular investor’s payments exceeding its pro rata share of the indebtedness. In the case that the subscription facility lender requires repayment by a parallel fund vehicle of more than its pro rata share of indebtedness of the applicable Client, the other parallel fund vehicles may not have sufficient assets to appropriately reimburse the Client that made the repayment.

General Risks Relating to the Investment Program

Unspecified Investments

Investors acquiring Interests in a Client must rely upon the ability of the Principals and the other members of each Client’s investment team to identify and execute investments consistent with each Client’s investment objective and policies. The Clients may be unable to find a sufficient number of attractive opportunities to meet their investment objectives. The availability of investment opportunities will depend upon general market conditions and, in part, upon conditions in the private equity markets that affect the number of investment opportunities generally available. Although the Adviser believes that significant opportunities exist, there can be no assurance that the Adviser will be able to source, identify, select and invest in a sufficient number of opportunities to permit each Client to invest all of its committed capital, to diversify its portfolio investments to the extent described in the applicable Client’s offering memorandum or to meet its investment objective. Investors will not generally have an opportunity to evaluate for themselves the relevant economic, financial and other information regarding the portfolio investments to be made by the Clients and, accordingly, will be dependent upon the judgment and ability of the Principals to identify suitable investments.

Highly Competitive Market for Investment Opportunities

Although the Adviser believes there are currently a limited number of competitors focused on making investments in the Targeted Sector, the activity of identifying, completing and realizing on attractive investments is still a highly competitive one (and may become more competitive over time) and involves a high degree of uncertainty. The Clients will likely be competing for investment opportunities with, among other entities, other private investment vehicles as well as institutional investors. There can be no assurance that the Principals and the other members of each Client's investment team will be able to source an adequate number of attractive investment opportunities or that it will be able to fully invest its committed capital. Moreover, the Adviser's beliefs regarding the availability of certain investment opportunities for the Clients are based in part on assumptions regarding the amount of private equity capital that will be invested over such time period, the amount of private debt and other financing that will be required for such investments, the Clients' ability to participate in such investments and other market, economic and related assumptions, some or all of which may not materialize as expected.

Limited Number of Investments

Although the Clients will generally consider the benefits of diversification with respect to their portfolio investments, other than as restricted, as described in each Client's offering memorandum and/or governing documents, the Clients are not subject to investment limitations or requirements and investors have no assurance regarding the number of investments in which the Clients will participate or the degree of diversification of the Clients' investments by issuer, security, geographic region or industry. Decisions regarding diversification will generally be made in the discretion of the Adviser. To the extent the Clients concentrate portfolio investments in a particular operating portfolio company, Product (as defined below), Service (as defined below) geographic region or area within the Targeted Sector, the portfolio investments will become more susceptible to fluctuations in value resulting from adverse economic or business conditions with respect thereto. As a consequence, the aggregate return of such Clients may be adversely affected by the unfavorable performance of one or a small number of portfolio investments or industries or unfavorable developments in one or a small number of geographic regions. In addition, certain of the Clients' investments may be made in a single Product or Service or in an operating portfolio company which invests in a single Product or Service. In either case, if an investment is made in a single Product or Service, the consequences of that Product's or Service's failure could negatively affect the performance of certain Clients.

Financial Market Fluctuations

General fluctuations in the market prices of securities may affect the value of the investments held by the Clients. Instability in the securities markets may also increase the risks inherent in the Clients' investments.

Illiquidity

The lack of an established, liquid secondary market for a large portion of the Clients' investments may have an adverse effect on the value of the Clients' investments and on the Clients' ability to dispose of them. Certain Clients' investments include securities that have not been registered for sale to the public under the 1933 Act pursuant to an exemption from registration (including Section 4(a)(2) of, or Rule 144A under, the 1933 Act). Such restricted securities are generally only sold to institutional investors in private sales from the issuer or from an affiliate of the issuer. These securities are typically less liquid than securities registered for sale to the general public. Additionally, certain Clients' investments are subject to certain transfer restrictions that also contribute to illiquidity. Finally, Client assets that are

typically traded in a liquid market may become illiquid if the applicable trading market tightens as a result of a significant macro-economic shock or for any other reason.

Therefore, no assurance can be given that, if a Client is determined to dispose of a particular investment held by such a Client, it could dispose of such investment at the prevailing market price or the current valuation of the Adviser. In addition, the Adviser or any applicable sub-advisor may, from time to time, possess material, non-public information about a borrower or issuer or a Client may be an affiliate of a borrower or an issuer. Such information or affiliation may limit the ability of the Clients to buy and sell investments when they would otherwise want to do so.

Valuation

The process for valuing securities for which reliable market quotations are not available is based on inherent uncertainties, and the resulting values may differ from values that would have been determined had a ready market existed for such securities, from values placed on such securities by other investors and from prices at which such securities may ultimately be sold. In some cases (generally with respect to less liquid securities for which reliable market quotations may not be available), the process of valuing securities may provide the Adviser with wide latitude as to specific valuations. There is no guarantee that an investment's valuation will represent the value that will be realized by a Client on the eventual disposition of the investment or that could, in fact, be realized upon an immediate disposition of the investment. In addition, there is no guarantee that the price at which a Client seeks to purchase securities or other assets via a cross trade with another parallel fund vehicle will represent the price at which an unaffiliated third party would sell such assets to the Client or that the price at which a Client seeks to sell securities to another parallel fund vehicle will represent the price at which an unaffiliated third party would purchase such assets from the Clients. See "*Transactions with Affiliates*" in Item 11 for more information. Third-party pricing information may at times not be readily available regarding certain of the Clients' assets or, if available, may not be considered reliable. The Adviser in its sole discretion may, but is not required to, solicit valuations from an independent valuation service.

Hedging Policies/Risks

Certain Clients, in some circumstances, directly or indirectly, employ hedging techniques in connection with their portfolio investments designed to reduce the risks of adverse movements in interest rates, securities prices, currency exchange and other factors (including risks associated with the use of derivative instruments). While such transactions may reduce certain risks, such transactions themselves may entail certain other risks. Thus, while the such Clients may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates, securities prices, currency exchange rates or other events relating to such hedging transactions may result in a poorer overall performance for such Clients than if they had not entered into such hedging transactions.

Leverage

Certain Clients are permitted to borrow money and guarantee obligations, subject to the limitations set forth in their applicable governing documents. The use of leverage has certain cash management and other advantages but it also exposes such Clients and their assets to certain risks, including risk of loss if such Clients default under a credit or loan facility. The extent to which the applicable Clients use leverage (directly or indirectly) will likely have important consequences to the investors in such Clients, including, but not limited to, the following: (i) greater fluctuations in the net assets of such Clients; (ii) use of cash flow for debt service, rather than for additional investments, distributions or other purposes; (iii) to the extent that Client revenues are required to meet principal payments, the partners may be allocated income (and therefore tax liability) in excess of cash available for distribution; and (iv) in certain circumstances

such Clients may be required to sell instruments prematurely to service their debt obligations. There can also be no assurance that such Clients will have sufficient cash flow to meet their debt service obligations. As a result, these Clients' exposure to losses may be increased due to illiquidity of their investments generally. In addition, leverage provided to such Clients will result in interest expense and other costs in connection with such borrowings, which could reduce net investor returns.

Certain Clients will likely make equity investments in highly leveraged companies, and while such investments offer the opportunity for capital appreciation, such investments also involve a high degree of risk. If a Client's portfolio companies may involve high degrees of leverage, recessions, operating problems, and other general business and economic risks may have a more pronounced effect on the profitability or survival of such companies. Also, increased interest rates generally increase portfolio company interest expenses. In the event any such portfolio company cannot generate adequate cash flow to meet debt service, the applicable Client may suffer a partial or total loss of capital invested in the portfolio company. Certain Clients may also guaranty the obligations of their portfolio companies. In such a circumstance, if a portfolio company defaults on its obligations, the Client may be required to satisfy such obligation.

Small and Middle Market Companies

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

Adverse Consequences of Ownership of Controlling Interests in Portfolio Companies

Certain Clients anticipate that they will, from time to time, own a controlling percentage of the common equity of portfolio companies. Because of their equity ownership, representation on the board of directors and/or contractual rights, such Clients may often be thought to control, participate in the management of or influence the conduct of portfolio companies. This could expose the assets of such Clients to claims by a portfolio company, its other security holders, its creditors or governmental agencies.

Reliance on Portfolio Company Management

Although it is the intent of the Clients to invest in companies with strong and stable management, there can be no assurance that the existing management team of a portfolio company, or any new one, will be able to operate such company successfully. Furthermore, although the general partner of a Client will

monitor the performance of each portfolio company, it will be primarily the responsibility of portfolio company management to operate the business on a day-to-day basis.

Lack of Control in Minority Investments

Client's equity investments will frequently represent minority positions in portfolio companies, without power individually to exert significant control over such portfolio companies' boards of directors and management. In such cases, the Clients will rely significantly on the existing management and boards of directors of such companies, which may include representatives of other investors with whom the Client is not affiliated and whose interests or views may conflict with the interest of the Client.

Risks Relating to Geography of Investments

Certain Clients pursue certain investments located outside of the U.S., or based on sales of portfolio companies outside of the U.S. Investments in certain non-U.S. capital markets and securities involve risks and special considerations not typically associated with investing in the more developed and established U.S. capital markets and securities, including risks relating to: (i) currency exchange, including fluctuations in the rate of exchange between the U.S. dollar and foreign currencies; (ii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (iii) changes in tax treaties; (iv) certain economic and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital, the risk of political, economic, or social instability, including war and the possibility of expropriation or confiscatory taxation; (v) the possible imposition of foreign taxes and tax-filing obligations on income and gains recognized with respect to such securities; and (vi) less developed corporate laws and laws with respect to creditor rights. To the extent such non-U.S. laws and regulations do not provide such Clients with equivalent rights and privileges necessary to promote and protect their interests in any such proceeding, such Clients' investments may be adversely affected. For example, bankruptcy law and process in a non-U.S. jurisdiction may differ substantially from that in the U.S., resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. While the Adviser intends, where appropriate, to manage the Clients in a manner that will minimize exposure to the foregoing risks, there can be no assurance that developments with respect to such risks and others will not adversely affect the assets of the Clients that are held in certain countries.

Market Disruption and Geopolitical Risk

Clients are subject to the risk that war, terrorism, and related geopolitical events may lead to increased short-term market volatility and have adverse long-term effects on the U.S. and world economies and markets generally, as well as adverse effects on issuers of securities and the value of the Client's investments. Those events as well as other changes in U.S. and non-U.S. economic and political conditions also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment and other factors affecting the value of Clients' investments. At such times, Clients' exposure to a number of other risks described elsewhere in this *brochure* can increase.

Currency Exchange Risk

Investments or liabilities of certain Clients are denominated in currencies other than the U.S. dollar, and hence the value of such investments, or the amount of such liabilities, will depend in part on the relative

strength of the U.S. dollar. Such Clients may be affected favorably or unfavorably by exchange control regulations or changes in the exchange rate between foreign currencies and the U.S. dollar. Changes in foreign currency exchange rates may also affect the value of dividends and interest earned, and the level of gains and losses realized on the sale of securities. The rates of exchange between the U.S. dollar and other currencies are affected by many factors, including forces of supply and demand in the foreign exchange markets. These rates are also affected by the international balance of payments and other economic and financial conditions, government intervention, speculation and other factors. The Clients are not generally obligated to engage in any currency hedging operations, and there can be no assurance as to the success of any hedging operations that a Client may implement.

Credit Market Risks

Conditions in the credit markets will likely have a significant impact on the business of certain Clients. The credit markets in the U.S. have experienced a variety of difficulties and changed economic conditions in recent years that have adversely affected the performance and market value of many securities and financial instruments. There can be no assurance that the Clients will not suffer material adverse effects from broad and rapid changes in market conditions in the future. Among other things, the level of investment opportunities may decline from the Adviser's expectations. As a result, fewer investment opportunities may be available to the Clients, although if credit markets remain constrained, the Clients may have the opportunity to take larger positions in potential transactions. One possible consequence is that certain Clients may take longer than anticipated periods to invest capital, as a result of which, at least for some period of time, such Clients may be relatively concentrated in a limited number of investments. Consequently, during this period, the returns realized by investors may be substantially adversely affected by the unfavorable performance of a small number of these investments.

Furthermore, market conditions may unfavorably impact certain Clients' ability to secure leverage on terms as favorable as more established borrowers in the market, or to obtain any leverage on commercially feasible terms. To the extent the Clients are able to secure financing for investments, increases in interest rates or in the risk spread demanded by financing sources would make the partial financing of investments with indebtedness more expensive and could limit the Clients' ability to structure and consummate their investments. Although the Adviser believes that the continued unfolding of the credit cycle will result in attractive investment opportunities, it may not be able to time the Clients' investments correctly, which could result in further depreciation in values. Furthermore, market conditions could deteriorate further and the Clients may be limited in their ability to realize investments already made by the Clients due to difficulties in buyers' ability to obtain financing on favorable terms, or to secure financing at all. For reasons not necessarily attributable to any of the risks set forth herein, the prices of the securities and other financial assets in which the Clients invest may decline substantially. In particular, purchasing assets at what may appear to be "undervalued" levels is no guarantee that these assets will not be trading at even lower levels at a time of valuation or at the time of sale.

Third Party Litigation

The Clients' investment activities subject them to the normal risks of becoming involved in litigation by third parties. This risk is somewhat greater where the Clients exercise control or significant influence over a portfolio company's direction. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the applicable Clients and would reduce net assets of such Clients.

Taxation in Portfolio Company Jurisdictions

If a Client makes investments in a jurisdiction outside the United States, such a Client and/or such Client's investors may be subject to income or other tax in that jurisdiction, as well as tax filing obligations. Additionally, withholding taxes or branch taxes may be imposed on earnings of such a Client and/or investors from investments in such jurisdiction. In addition, local tax incurred in such a jurisdiction by the Clients or vehicles through which they invest may not entitle investors to either (i) a credit against tax that may be owed in their respective home tax jurisdictions or (ii) a deduction against income taxable in such home jurisdictions by the investors. Taxes paid or withheld by the Clients allocable to an investor will typically be deemed to have been distributed to such investor. In certain situations, the Clients may hold investments through entities organized outside the U.S. that are treated as corporations for U.S. federal income tax purposes. Investors may be subject to special rules applicable to "controlled foreign corporations" or "passive foreign investment companies" with respect to investments made through such entities.

Legal, Tax and Regulatory Consequences

Legal, tax and regulatory changes could occur during the term of a Client that adversely affect the Client, its investments, or its investors. These risks and others may be more pronounced in certain less developed countries or regions in which the Clients may invest.

Future Changes in Applicable Law

Each Client's ability to implement its investment program, as well as the ability of the Clients to conduct their operations and objectives, is based on laws and regulations which are subject to change through legislative, judicial or administrative action. Future legislative, judicial or administrative action could adversely affect a Client's ability to implement its investment program, as well as the ability of the Clients to conduct their operations and achieve their investment objectives. The regulatory environment for private investment funds and their investment advisers as well as investors in such private funds is evolving, and changes in the regulation of private investment funds or their investment advisers may adversely affect the value of investments held by the Clients and the ability of the Clients to obtain the leverage they might otherwise obtain or to pursue their trading strategies. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. The effect of any future regulatory change on the Clients could be adverse.

Risks Relating to the Targeted Sector

The ability of the Clients to generate returns for investors will generally depend in part on the success of the pharmaceutical, biotechnology, specialty and generic pharmaceuticals, medical devices and products, laboratory and diagnostics products (the "***Products***") and healthcare and life science focused services, leasing, equipment and information technology companies (the "***Services***") related to the Clients' investments in the portfolio companies. To the extent any such risks described below adversely affect sales of the portfolio companies, potential returns for investors will, in turn, be adversely affected.

Sales Risk

Sales from the portfolio companies may be lower than their historical levels or lower than the amounts projected due to pricing pressures, insufficient demand, product competition, lack of market acceptance,

obsolescence, safety or efficacy issues, restrictions on distribution imposed or requested by regulatory authorities, narrowing of the approved indication(s) for use, addition of a boxed warning or other warning or precaution to the labeling, manufacturing shortages, loss of patent protection or other factors. The portfolio companies may be adversely affected by decreased sales.

Withdrawal from Market Risk

After its regulatory approval and introduction into the market, a Product may still be subject to withdrawal from the market at the request or direction of the U.S. Food and Drug Administration (“FDA”) or a non-U.S. regulatory body. The manufacturer or marketer of a Product may voluntarily withdraw the Product from the market for medical, technical, regulatory, commercial or other reasons. There can be no assurance that a Product in which any Client has an interest will not be withdrawn or that any such withdrawal will not have an adverse effect on a portfolio company.

Product and Service Competition

The Targeted Sector is highly competitive and rapidly evolving. Each portfolio company is subject to competition from alternative products, procedures or services that are now available, or that may be developed or become available in the future. Portfolio companies and their Products face competition from (i) products currently on the market that are approved for other indications, but may be subsequently approved for the same indications as those of the Products, (ii) off-label use of products approved for other indications, (iii) the introduction of new products or procedures, and/or (iv) improvements to existing products. Any of these changes may cause a Product to become more expensive than its competitors or less relevant as a therapeutic alternative, thereby decreasing the value of (and in some instances, rendering worthless) the expected revenue stream on that Product. In addition, a change of law could permit importation into the countries for which certain Clients or their portfolio companies are entitled to royalties for Product sales (the “Protected Countries”) of Products for which the such Clients or their portfolio companies may not be entitled to royalties, which could reduce the sales of royalty bearing Products or otherwise have an adverse effect on a portfolio company that has invested in the development of such Product.

Licensees of the Products (“Licensees”) are generally responsible for the development, production, marketing and sale of the Products. The sale of the Products and the Licensees’ ability to maintain their competitive positions are related to the success of the Licensees’ respective marketing efforts. These efforts rely, in part, on the strength and reputation of a Product’s brand name, the capabilities of the Licensee’s sales force, and underlying trademarks, trade names and related intellectual property. A Licensee’s activities both in marketing the Products and in protecting its intellectual property are outside the control of the Clients. A Licensee’s failure either to market the Products actively or to diligently protect its intellectual property rights could reduce its competitive position or have an adverse effect on a Client’s investment in any portfolio company that enters into an agreement with such Licensee.

Competitor Designation

Certain Clients enter into arrangements whereby they take on some of the risk of the potential success or failure of the products in which they invest and arrangements whereby they invest directly in biopharmaceutical companies and products. These investments may limit such Client’s ability to invest in other products or companies in the same industries or industry segments because companies may believe that, through its investment in competing products or companies, such Client is in competition with them. This could prevent such Client from making investments in companies or products that it views as attractive investment opportunities.

Customer Cost Containment

Portfolio companies may sell their Products through Group Purchasing Organizations (“GPO”) and/or Independent Distributor Networks (“IDN”) that use their leverage in order negotiate provider-favorable pricing for their healthcare provider members. Portfolio companies may be unable to compete with discounts offered to GPOs and IDNs by market segment competitors. Increasing consolidation and purchasing coordination in certain provider segments, including lab and diagnostic services, urgent care, inpatient care, and certain specialty practices may erode portfolio companies’ negotiating position in direct customer sales. In addition, both federal and state governmental authorities in the U.S. continue to propose and pass new legislation affecting coverage and reimbursement policies, which are designed to contain or reduce the cost of healthcare. There may be future changes that result in reductions in current coverage and reimbursement levels for current and future Products and services, and the Adviser is not able to predict the scope of any future changes or the impact that those changes would have on any portfolio company. Any of these changes could negatively affect the future revenues and potential profitability of a portfolio company.

Independent Licensees

Certain Clients receive royalties paid by the Licensees or, in the case of bonds or other securities collateralized by royalties, payments supported by royalties paid by the Licensees. These Licensees are not owned by or affiliated with the Clients and some of these Licensees may have interests that are different from the Clients’ interests. These Licensees may be motivated to maximize income by allocating resources to other products and, in the future, may decide to focus less attention on the Products. There can be no assurance that each of these parties has adequate resources and motivation to continue to produce, market and sell the Products. Aside from any limited audit rights relating to the activities of the Licensees that the Clients may have in certain circumstances, the Clients do not generally have oversight rights with respect to the Licensees’ operations. The Clients also generally have limited information on the Licensees’ operations. While the Clients may be able to receive certain information relating to sales of Products through the exercise of audit rights and review of royalty reports, if available, the Clients will not generally have the right to review or receive other important information relating to Products, including the results of any studies conducted by the Licensees or others, or complaints from doctors or users of the Products, that the Licensees may have. The market performance of the Products, therefore, may be diminished by any number of factors relating to the Licensees that are beyond the Clients’ control.

In addition, royalty payments are typically determined by the Licensees based on their reported sales. Each Licensee’s calculation of the royalty payments is subject to and dependent upon the adequacy and accuracy of its sales and accounting functions, and errors may occur from time to time in the calculations made by a Licensee. While certain Clients have certain audit rights with respect to the calculations and sales data for the associated royalty payments, such audit rights are generally limited. In addition, such audits may occur many months following the applicable Client’s recognition of the royalty revenue, may require the Client to adjust its royalty revenues in later periods and may require expense on the part of the Client.

Risk Associated with Generic Substitutes

Competitors of a portfolio company may develop technologies or products, which are, or in the future may be, the basis for products that will directly compete with a portfolio company or reduce the market for a Product, including the development and marketing of generic substitutes for products that generate substantial portions of a portfolio company’s revenue. Portfolio companies may face competition from fully integrated and more established companies. Although the Products may be based upon patents

and/or patent applications with exclusive rights and may have other types of exclusivity under relevant laws, a regulatory authority may, upon expiration of such exclusivities, authorize marketing by a third party for a generic substitute for a Product, in which case the Product would become subject to competition from such generic substitute. Generic substitutes are typically sold at significantly lower prices than branded products. Governmental and other pressures to reduce pharmaceutical costs, including from third-party payers such as health maintenance organizations and health insurers, could influence physicians or pharmacies to increasingly use generic substitutes for the Products. An early or unexpected termination of exclusivity rights by courts, could lead to the early entry of generic competitors. These factors may materially adversely affect the investments held by the Clients.

Risks to Portfolio Companies that Develop Generic Substitutes

Certain Clients also invest in portfolio companies that derive a substantial portion of their revenue from the development or sale of generic products. Generic pharmaceutical products face intense competition from brand-name companies that sell or license their own generic products or seek to delay the introduction of generic products. Brand-name pharmaceutical companies have taken aggressive steps to thwart competition from generic companies. In particular, brand-name companies continue to sell or license their products directly or through licensing arrangements or strategic alliances with generic pharmaceutical companies (so-called “authorized generics”). No significant regulatory approvals are required for a brand-name company to sell directly or through a third party to the generic market. Brand-name companies do not face any other significant barriers to entry into such market. In addition, such companies continually seek new ways to delay generic introduction and decrease the impact of generic competition, such as (i) filing new patent applications on drugs whose original patent protection is about to expire; (ii) filing an increasing number of patent applications that are more complex and costly to challenge; (iii) filing suits for patent infringement that automatically delay FDA approval; (iv) filing citizens’ petitions with the FDA contesting approval of the generic version of the product due to alleged health and safety issues; (v) developing controlled-release or other “next-generation” products, which often reduces demand for the generic version of the existing product for which portfolio companies may be seeking approval; and (vi) developing and marketing as over-the-counter products those branded products which are about to face generic competition. Such actions may adversely affect the Clients’ investments. In addition, the revenues and profits from generic pharmaceutical products decline as competitors introduce their own generic equivalents. A portfolio company’s ability to sustain sales and profitability on any product over time is dependent on both the number of new competitors for such product and the timing of such competitors’ regulatory approvals.

Potential Product Liability Claims

Portfolio companies and/or the manufacturers, developers or marketers of the Products could become subject to product liability claims. A successful product liability claim could adversely affect the amount of revenue generated by the Clients. Although the Adviser believes neither it nor the Clients will bear responsibility in the event of a product liability claim against portfolio companies and/or the companies manufacturing, marketing and/or selling the underlying Products, there can be no assurance that such claims would not materially and adversely affect the Clients.

Effect of Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (as amended by the Health Care and Education Affordability Reconciliation Act and otherwise, the “ACA”) is expected to substantially change the way healthcare is financed by both governmental and private payors. The ACA provides for changes to extend medical benefits to those who currently lack insurance coverage, encourages improvements in the quality of healthcare items and services, and significantly impacts the U.S. medical industry in a number

of ways. By extending coverage to a larger population, the ACA may substantially change the structure of the health insurance system and the methodology for reimbursing medical services, drugs and devices. These structural changes could entail modifications to the existing system of private payors and government programs, such as Medicare, Medicaid and State Children's Health Insurance Program, as well as the creation of a government-sponsored healthcare insurance source, or some combination of both. Such restructuring of the coverage of medical care in the U.S. could impact the extent of reimbursement for medical devices and services. The ACA also imposes an excise tax of 2.3% on the sale price of certain medical devices. Portfolio companies that manufacture or import Products subject to the excise tax must report and pay applicable excise taxes on a quarterly basis.

Intellectual Property Risks

Patent and Other Intellectual Property Rights May Be Challenged and/or Otherwise Compromised

The success of the Clients' investments will frequently depend, at least in part, on the existence of valid and enforceable claims of issued patents and/or claims in pending patent applications in the United States and elsewhere throughout the world, and/or possibly on other forms of registered and/or unregistered intellectual property rights. For instance, in the case of royalty investments, the Clients' rights to receive payments will depend on the sales of Products covered by such intellectual property rights. In the case of direct equity or credit investments in companies in the Targeted Sector, these companies' performance and consequently the success of the Clients' investments in these companies will similarly be dependent on these intellectual property rights. The patents, patent applications, and/or other intellectual property rights on which these royalty streams or other investments depend may be challenged, invalidated, rendered unenforceable or otherwise compromised. By way of example only, there can be no assurance that a third party will not assert ownership or other rights in or to any such patents, patent applications or other intellectual property, or that any patent applications on which royalty streams or other investments may depend will proceed to grant. Similarly, there can be no assurance that, in the context of a patent challenge or otherwise, evidence such as prior art references, will not be uncovered that could have an adverse effect on the scope, validity or enforceability of any of the patents or on the patentability of any of the patent applications on which the royalty streams or other investments depend. Any challenge or other compromise of the patents, patent applications or other intellectual property rights on which the royalty streams or other investments depend may adversely affect the performance of the Clients.

The Intellectual Property May be Infringed or Circumvented by Others

There is a risk that third parties may use the patents, patent applications and/or other intellectual property rights on which the royalty streams and other investments depend without authorization from the licensor or in the case of royalty streams, without otherwise paying royalties to the licensor. There also is a risk that companies within the Targeted Sector may develop or otherwise obtain intellectual property that potentially could reduce any competitive advantage afforded by the patents, patent applications and/or other intellectual property on which the royalty streams or other investments depend. The undetected or unremedied use of these intellectual property rights by third parties, and/or the design-around or circumvention of these intellectual property rights, could adversely affect the payments that the Clients would receive.

Trade Secrets

Certain Clients' rights to receive payments in relation to royalty streams or other investments depend, in part, on trade secrets, know-how and technology which are not protected by patents. This information is typically protected through confidentiality agreements with parties that have access to such information, such as collaborative partners, licensors, employees and consultants. Any of these parties may breach the

agreements and disclose or use the confidential information, and third parties might learn of or use the information in some other lawful or unlawful way. Any such disclosure or use of the trade secrets, know-how or technology, whether lawful or unlawful, may adversely affect the payments that the Clients would receive.

Foreign Jurisdictions

A significant portion of the royalty streams and other investments of certain Clients relates to income generated from the manufacture, use or sale of the Products outside of the United States. The patents, patent applications and/or other intellectual property rights on which the royalty streams or other investments depend may not extend in each jurisdiction in which such Products are made, used or sold, and thus it may not be possible to prevent competitors from exploiting competing products in such markets. In addition, foreign jurisdictions have differing procedures and/or standards for prosecuting and/or maintaining patents, and provide differing degrees of protection against the infringement or other unauthorized use of patents or other intellectual property. These variations among various international jurisdictions may affect the payments that the Clients would receive.

The Clients Depend on Third Parties to Maintain, Enforce and Defend Patent Rights and Other Intellectual Property Rights on which the Clients' Rights to Receive Payments May Depend

While the value of certain Clients' investments, including royalty streams may be highly dependent on the prosecution, maintenance, defense and/or enforcement of the patents, patent applications and other intellectual property rights, in most, if not all cases, such Clients have no ability to control these activities and must rely on the willingness and ability of the licensor or its designee to undertake these activities. It is anticipated that the licensor or its designee will be in the best position to prosecute, maintain, enforce and/or defend the underlying patent and other intellectual property rights and that the licensor or its designee will have the requisite business and financial motivation to do so. However, there can be no assurance that these third parties will seek to vigorously prosecute, maintain, enforce or defend such rights, or that their efforts to do so will be successful. Any failure to successfully prosecute, maintain, enforce or defend such rights could have a material adverse effect on the respective investment and on the Clients. Certain Clients may not have the ability to participate in patent or other proceedings brought by or against the licensor or its designee, and if they do, such Clients could incur substantial litigation costs.

Changes in Intellectual Property Law

Legislative, judicial and/or regulatory changes could occur during the term of a Client with respect to intellectual property matters that adversely affect its ability to derive income from the royalty streams and other investments.

Infringement of Third Party Patents and Other Intellectual Property Rights

The commercial success of the Products depends, in part, on avoiding infringement of the intellectual property rights of others. Third party issued patents or patent applications, trademarks, copyright, designs or other intellectual property rights claiming subject matter used to manufacture, market, sell and/or use the Products could exist. There can be no assurance that a license would be available for such subject matter if such infringement were to exist or, if offered, would be offered on reasonable and/or commercially feasible terms. Without such a license, it may be possible for third parties to assert infringement or other intellectual property claims against a Licensee based on such patents or other intellectual property rights. For instance, in the case of royalty streams, an adverse outcome in infringement proceedings could subject the Licensee to significant liabilities to third parties, require disputed rights to be licensed from third parties or require the Licensee to cease or modify its

manufacturing, marketing, distribution, sale and/or use of the Products, thereby reducing the royalty streams.

Finite Terms and Other Contractual Matters

Rights to receive payments in respect of royalty streams typically have limited terms that are generally not subject to extension. Following the termination or expiration of the licensed intellectual property rights, or the termination or expiration of the license or contractual right to receive payments under any agreement pursuant to which a Client has the right to receive payments, such Client may not receive any further revenue related to the relevant Product, even if the Product continues to be sold. There also is a risk that disputes may arise with respect to the license agreements pertaining to the patents, patent applications and/or other intellectual property rights on which the royalty streams depend that adversely affect certain Clients' rights or ability to collect payments.

Lack of Ownership

With respect to certain types of investments, the issuer does not have any ownership or license rights to the intellectual property related to the royalty stream. If an event of default occurs and continues with respect to certain types of investments held by a Client, such Client and the other security holders will not have the right to receive the underlying intellectual property related to the relevant product. If the issuer defaults on its obligations, the recourse of such Client and other security holders may be limited.

Regulatory Risks

Product Development Risks

Certain Clients acquire interests in Products undergoing development or clinical trials that have not yet received marketing approval by any regulatory authority. Such Clients expect to focus on commercial-stage companies, although such Clients may invest a portion of their assets in early stage or venture stage companies, or special purpose vehicles or companies that finance such companies. There can be no assurance that the FDA, the European Medicines Agency (the "EMA"), Japan's Pharmaceuticals and Medical Devices Agency or other regulatory authorities will approve or clear such Products, or that such Products will be brought to market in a timely manner or at all, and such risks may be greater for early stage or venture stage companies. The research, development, preclinical and clinical trials, manufacturing, labeling, and marketing related to a life sciences company's products are subject to an extensive regulatory approval process by regulatory agencies. The process for obtaining required regulatory approvals, including the required preclinical and clinical testing, is very lengthy, costly, and uncertain. There can be no guarantee that, even after such time and expenditures, a company will be able to obtain the necessary regulatory approvals for clinical testing or for the manufacturing or marketing of any products or that the approved labeling will be sufficient for favorable marketing and promotional activities. If a company is unable to obtain these approvals in a timely fashion, or if after approval for marketing, a product is later shown to be ineffective or to have unacceptable side effects not discovered during testing, the company may experience significant adverse effects, which in turn could negatively affect the performance of the Clients.

Manufacturing and Supply Risk

Pharmaceutical products are manufactured in specialized facilities that, in major markets, require the approval of, and are subject to ongoing regulation by, regulatory agencies. For example, in the United States, Europe, and Japan (among other countries), drug product manufacturers must achieve and maintain compliance with current "Good Manufacturing Practices" set forth in national regulations and

harmonized guidelines developed through the International Conference on Harmonization. To the extent these manufacturing standards are not met, manufacturing facilities may be closed or the production of applicable Products may be interrupted until such time as any deficiencies noted by such agencies are remedied. Any such closure or interruption may interrupt, for an indefinite period of time, the manufacture and distribution of a Product.

In addition, manufacturers of such Products may rely on third parties for aspects of the manufacturing process, including packaging of the Products or supplying bulk raw material used in the manufacture of the Products. Licensees generally rely on a small number of key, highly specialized suppliers, manufacturers and packagers. Any interruptions, however minimal, in the operation of these facilities could have a material adverse effect on Product sales.

Changes to International Tax Laws

Several companies operating within the Targeted Sector have engaged in, or announced plans to consummate, so-called “inversion transactions,” which are transactions between a U.S. corporation and a non-U.S. corporation which result in a redomiciliation of the U.S. corporation in a foreign jurisdiction for tax purposes. In the past, U.S. legislative proposals have aimed to limit the attractiveness of such transactions by expanding the scope of U.S. corporate tax residence, limiting the ability of foreign-owned corporations to deduct interest expense and making other changes in the taxation of multinational corporations. Any such changes could have prospective or retroactive application, and may apply even if enacted after a transaction is consummated. Moreover, U.S. and non-U.S. tax authorities may carefully scrutinize companies that result from a cross-border business combination, which may lead such authorities to assert that such companies owe additional taxes. Any changes in tax laws or the enforcement or interpretation of existing laws and rules could have an adverse effect on the companies operating in the Targeted Sector and may adversely affect the value of the investments held by the Clients.

Enforcement Risk

Marketed medical products are subject to extensive post-marketing requirements, including laws and regulations related to advertising and promotion, safety surveillance and reporting, and price reporting. Failure to comply with these requirements could result in a range of enforcement actions that could have a material adverse effect on Product sales, including investigations, administrative penalties, judicial oversight, and potentially even market withdrawal.

Medical products reimbursed by government and third-party payors are subject to state and federal laws regarding fraud and abuse, including anti-kickback liability and liability under the U.S. federal civil False Claims Act. Violations of these laws can lead to substantial civil and criminal penalties, as well as potential exclusion from government contracting programs including Medicare, Medicaid, the Veteran’s Administration, TRICARE, CHAMPUS, and the Federal Employees’ Health Benefit Plan. Internal whistleblowers, competitors, and independent government investigations all constitute potential sources of such claims.

Portfolio companies that market and distribute their products internationally are increasingly at risk of foreign corrupt practices act (“FCPA”) liability in the United States, as well as related national and international bribery investigations. The FCPA prohibits payments to certain government officials in order to obtain or retain business. Internationally, health care providers that portfolio companies contract with or market products to may be considered government officials under the FCPA due to the prevalence of government-sponsored health care systems. Portfolio companies may face risk when selling and marketing products in certain countries and may be subject to criminal fines, penalties, and prosecution in

the United States for practices that are routine, customary, and not prohibited by law in the country where the alleged FCPA violation occurred.

Uncertainty Related to Healthcare Reimbursement and Reform Measures

In both the U.S. and foreign markets, sales of a life sciences company's products and its success depend in part on the availability of reimbursement from third-party payors, including government health administration authorities (such as Medicare or Medicaid in the United States), private health insurers, and other health management organizations. The revenues and profitability of life sciences companies may be affected by the continuing efforts of governmental and other payors to contain or reduce the costs of healthcare. Payors are increasingly challenging the prices charged for medical products and services that they reimburse. If the Products of the companies the Clients invest in are determined to not meet the criteria for coverage or reimbursement, these organizations may not reimburse the Products or may at lower levels. Significant uncertainty exists as to the reimbursement status of newly approved products. There can be no assurance that a company's proposed product will be considered cost-effective or that adequate third-party reimbursement will be available to enable a company to maintain price levels sufficient to realize an appropriate return on its investment in product development. Payors and pharmacy benefit managers may also exclude products entirely from reimbursement despite regulatory approval, leaving limited opportunities to recoup research and development costs.

In addition, changes in government legislation or regulation, changes in formulary or compendia listings, or changes in payors' policies may reduce or eliminate reimbursement of such products. Payor policies may require automatic substitution of Products with a generic equivalent, if such an equivalent is available. If reimbursement is reduced or is not available for a Product, sales would diminish and decrease cash flows available to satisfy royalty and other payment obligations, including payments on debt obligations thereby harming the Clients' revenue. In addition, macroeconomic factors may affect the ability of patients to pay for Products by, for example, diminishing the income patients have to pay out-of-pocket costs and/or obtain sufficient health insurance coverage.

Risks Relating to Certain Instruments and Techniques

General Debt Risks

A significant portion of certain Clients' investments are expected to consist of debt investments. Debt instruments are subject to credit risk, interest rate risk, and pre-payment risk.

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

generally more pronounced and less predictable in instruments with uncertain payment or pre-payment schedules. In addition, interest rate increases generally will increase the interest carrying costs to the Clients of borrowed securities and leveraged investments.

- “Pre-payment risk” refers to the risk that a borrower could repay the principal on an obligation held by a Client earlier than expected. This may happen when there is a decline in interest rates, when the borrower’s improved credit or operating or financial performance allows the refinancing of certain classes of debt with lower cost debt. The yield of the Clients’ investments assets will likely be affected by the rate of pre-payments differing from the Adviser’s expectations. In addition, if the Clients are unable to reinvest the proceeds of such pre-payments received in investments expected to be as profitable, the proceeds generated by such Clients will decline as compared to the Adviser’s expectations.

Credit Ratings

The ratings that may be assigned by various credit rating agencies to loans or other debt instruments that may be acquired by certain Clients reflect only the views of those agencies. No assurance can be given that ratings assigned will not be withdrawn or revised downward if, in the view of such credit rating agency, circumstances so warrant and there is no guarantee that any ratings relied on by the Adviser will not be so withdrawn or revised.

Second Lien, or Other Subordinated Loans or Debt

Certain Clients acquire second liens or other subordinated loans. In the event of a loss of value of the underlying assets that collateralize the loans, the subordinate portions of the loans may suffer a loss prior to the more senior portions suffering a loss. If a borrower defaults and lacks sufficient assets to satisfy a Client’s loan, such Client may suffer a loss of principal or interest. If a borrower declares bankruptcy, the Clients may not have full recourse to the assets of the borrower, or the assets of the borrower may not be sufficient to satisfy the loan. In addition, certain of the Clients’ loans may be subordinate to other debt of the borrower. As a result, if a borrower defaults on such a Client’s loan or on debt senior to such Client’s loan, or in the event of the bankruptcy of a borrower, such Client’s loan will be satisfied only after all senior debt is paid in full. The Adviser’s ability to amend the terms of the Clients’ loans, assign the Clients’ loans, accept pre-payments, exercise the Clients’ remedies (through “standstill periods”) and control decisions made in bankruptcy proceedings relating to borrowers may be limited by intercreditor arrangements if debt senior to a Client’s loans exists.

Senior Secured Loans

When the Clients make a senior secured loan to a portfolio company, they generally will take a security interest in the available assets of the portfolio company, including the equity interests of its subsidiaries, which should help mitigate the risk that the Clients will not be repaid. However, there is a risk that the collateral securing such a Client’s loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise, and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. In some circumstances, such a Client’s lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company’s financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that the Clients will receive principal and interest payments according to the loan’s terms, or at all, or that the Clients will be able to collect on the loan should it be forced to enforce its remedies.

Unsecured Loans or Debt

Certain Clients invest in loans which are not secured by collateral. In the event of default on an unsecured loan, a lien holder may have a prior claim to the assets supporting the loan. In such a circumstance, it is possible that no asset value would remain for an unsecured lender and therefore there could be a resulting loss to the Clients.

Convertible Securities

Certain Clients invest in convertible securities, which are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a Client is called for redemption, such Client will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third-party. Any of these actions could have an adverse effect on the applicable Client's ability to achieve its investment objectives.

Equity Securities

Certain Clients acquire equity securities. Equity securities may include common and preferred stocks and warrants, rights and equivalents. As with other investments that the Clients may make, the value of equity securities held by the Clients may be adversely affected by actual or perceived negative events relating to the issuer of such securities, the industry or geographic areas in which such issuer operates or the financial markets generally. However, equity securities tend to be even more susceptible to such events given their subordinate position in the issuer's capital structure. As such, equity securities generally have greater price volatility than fixed income securities or debt instruments. Preferred securities are subordinated to bonds and other debt securities in an issuer's capital structure in terms of priority for corporate income and liquidation payments and, therefore, will be subject to greater credit risk than those debt securities. Depending on the features of the particular security, holders of preferred stock may bear the risks disclosed herein regarding equity or fixed income securities.

Warrants

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

Structured Investments

Certain Clients invest in structured products, securitizations and other asset-backed securities, including collateralized debt obligations, collateralized loan obligations and repackaged securities (collectively, “Structured Investments”). These may be fixed pools or may be “market value” or managed pools of collateral, including commercial loans, high yield and investment grade debt, structured securities and derivative instruments relating to debt. The pools are typically separated into tranches representing different degrees of credit quality, with lower rated tranches being subordinate to senior tranches. Investments in structured products will be subject to a number of risks, including risks related to the fact that the structured products will often be leveraged, increasing their risk. See “*General Risks of Investing in the Clients -- Leverage*” above. In addition, if the particular structured product is invested in a security in which the applicable Client is also invested, this would tend to increase such Client’s overall exposure to the credit of the issuer of such securities.

Structured Investments are subject to the risks of the underlying assets. These risks include the possibility of a default by, or bankruptcy of, the issuers of such assets or a claim that the pledging of collateral to secure any such asset constituted a fraudulent conveyance or preferential transfer that can be subordinated to the rights of other creditors of the issuer of such asset or nullified under applicable law. The Clients will not generally own such assets directly and will therefore not typically benefit from general rights applicable to the holders of assets, such as the right to indemnity and the rights of setoff, or have voting rights with respect to such assets.

High Yield Securities

Certain Clients may make investments in “high yield” debt and preferred securities which are rated lower than investment grade by the various credit rating agencies (or in comparable non-rated securities). Securities that are rated lower than investment grade are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. They are also generally perceived to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions such that the yields and prices of such securities tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold.

Securities that are rated BB+ or lower by Standard & Poor’s Ratings Group or Ba1 or lower by Moody’s Investors Service are often referred to in the financial press as “junk bonds” and may include securities of issuers in default. “Junk bonds” are considered by the rating agencies to be predominately speculative and tend to involve major risk exposures such as: (i) vulnerability to economic downturns and changes in interest rates; (ii) sensitivity to adverse economic changes and corporate developments; (iii) redemption or call provisions which may be exercised at inopportune times; and (iv) difficulty in accurately valuing or disposing of such securities.

Inflation/Deflation Risk

Inflation risk is the risk that the value of assets or income from Client’s investments will be worth less in the future as inflation decreases the value of payments at future dates. As inflation increases, the real value of the Client’s portfolio could decline and the interest payments on Client borrowings, if any, may increase. Deflation risk is the risk that prices throughout the economy decline over time. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely or materially impair the ability of distressed issuers to restructure, which may result in a decline in the value of certain Clients’ portfolios.

Pooled Investment Vehicles and Pass-through Entities

Certain Clients may invest in or act through other pooled investment vehicles or pass through entities, including master limited partnerships and other registered and unregistered vehicles (“***Pooled Investment Vehicles***”), either directly or through derivatives contracts. To the extent a Client invests directly in Pooled Investment Vehicles and other “pass-through” entities which are treated as partnerships for federal income taxation purposes, the Client must rely on such vehicles to deliver to it certain tax information that is necessary to complete the Client’s own tax returns. If this information is not delivered to the Client in a timely fashion, the Client will be delayed in providing tax information to its investors. To the extent the Client’s investment in a Pooled Investment Vehicle is via a derivatives instrument, such as a swap agreement, the Client’s counterparty assumes responsibility for any such tax reporting.

Follow-On Investments

Following its initial investment in a given Product or portfolio company, a Client may decide to provide additional funds to such Product or portfolio company. There is no assurance that a Client will make follow-on investments or any Client will have sufficient funds to make all or any of such investments. Any decision by a Client not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a product or company in need of such an investment or may result in a lost opportunity for the Client to increase its participation in a successful operation.

Derivatives

Derivatives are financial contracts whose value depends on, or is derived from, the value of an underlying asset, reference rate or index. Although the Clients generally will not invest directly in uncovered options, futures contracts or other derivatives (with the exception of convertible securities, as discussed above) other than to hedge currency or interest rate exposure or to hedge or otherwise protect or enhance an existing or prospective investment, certain Clients use derivatives (such as put and call options, swaps, futures contracts and options on futures contracts) for hedging purposes. Such Clients’ use of derivative instruments involves risks different from the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks such as interest rate risk, credit market risks, liquidity risk, credit risk, management risk and counterparty risk. They also involve the risk of mispricing or improper or subjective valuation, the risk of ambiguous documentation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. In addition, because many derivatives have a leverage component, adverse changes in the value or level of the underlying asset, reference rate or index can result in a loss substantially greater than the amount invested in the derivative itself.

Short Sales

Certain Clients may engage in short sales to hedge long positions. In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. As a result, a Client would typically engage in short sales where it believes the value of the security will decline, or will underperform relative to another security or group of securities in its portfolio, between the date of the sale and the date the Client is required to return the borrowed security. The making of short sales exposes the Client to the risk of liability for the market value of the security that is sold, which in certain circumstances is an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be

available for purchase or that securities will be available to be borrowed by a Client at reasonable costs. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a “short squeeze” can occur, and the applicable Client may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short. Any of these factors could make the applicable Client unable to execute its investment strategy.

The SEC has in the past adopted interim rules requiring reporting of all short positions above a certain *de minimis* threshold and may adopt rules requiring public disclosure in the future. In addition, other jurisdictions in which Clients may trade have adopted reporting rules for short sales and short positions. If a Client’s short positions or its strategy become generally known, it could have a significant effect on the Adviser’s ability to implement its investment strategies. In particular, it would make it more likely that other investors could cause a “short squeeze” in the securities held short by a Client forcing the Client to cover its positions at a loss. In addition, if other investors engaged in copycat behavior by taking positions in the same issuers as a Client, the cost of borrowing securities to sell short could increase drastically and the availability of such securities to the Client could decrease drastically. Such events could make a Client unable to execute its investment strategy. The SEC has adopted restrictions on the short sales of securities which fall more than 10 percent in a given day (referred to as the “circuit breaker” or “modified uptick” rule). Such events and these and other restrictions on the Adviser’s ability to engage in short sales could make the Adviser unable to execute certain Clients’ investment strategies and cause losses to the Clients.

The SEC and regulatory authorities in other jurisdictions may adopt (and in certain cases, have adopted) bans on short sales of certain securities in response to recent market events. Bans on short selling may make it impossible for Clients to execute certain investment strategies and may have a material adverse effect on the ability of certain Clients’ to achieve their investment objectives and generate returns.

Originated Investments; Syndication

Certain Clients originate loans. In originating and purchasing loans, such Clients compete with a broad spectrum of lenders, some of which may have greater financial resources than the applicable Clients. Increased competition for, or a diminishment in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors. Certain Clients may originate certain investments and later syndicate all or a portion of one or more investments to other affiliated fund vehicles or third parties. Prior to such syndication, or if such syndication is not successful, the Client’s exposure to the originated investment will likely exceed the exposure that the Client intends to have over the long-term or would have had if it had purchased such investment in the secondary market rather than originating it. See “*Transactions with Affiliates*” in Item 11 for more information. Syndication of such loans is also subject to valuation risks. The level of analytical sophistication, both financial and legal, necessary for successful loan origination activities is unusually high. There is no assurance that the Adviser will correctly evaluate the value of the assets collateralizing these loans or the prospects for successful repayment or a successful reorganization or similar action.

Financially Troubled Companies

Certain Clients invest in the obligations of companies that are financially troubled and that are either engaged in a reorganization or expect to file for bankruptcy. Investments in financially troubled companies involve significantly greater risk than investments in non-troubled companies, and the repayment of obligations of financially troubled companies is subject to significant uncertainties. Loans

issued by companies in bankruptcy are also highly risky, as there are a number of significant rights throughout the bankruptcy process, which may result in losses to the Clients. Additionally, certain Clients invest in the securities of financially troubled companies that are non-U.S. issuers. Such non-U.S. issuers may be subject to bankruptcy and reorganization processes and proceedings that are not comparable to those in the United States and that may be less favorable to the rights of lenders.

Public Debt

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

Dependence on Payments

Because the issuers of certain Client investments may be special purpose financing entities with no operations of their own, they may depend on payments from counterparties to meet the obligations under the investments. If the counterparties fail to make royalty payments, or if such payments are not made in a timely manner, the issuer will not generally have any other source of funds to meet its payment obligations.

Risks of the Bankruptcy Process Affecting Client Investments

There are a number of significant risks inherent in the bankruptcy process. If any portfolio company, issuer of instruments held by a client, any counterparties to the instruments entered into by a client, any custodians of a Client's assets, or any obligors in connection with the Fund's investments are involved in U.S. bankruptcy proceedings, the relevant Client will be subject to certain of those risks, including potential for reduced recovery on the relevant Client's investments, uncertain duration of bankruptcy proceedings, administrative costs and impact of a bankruptcy case on the value of assets administered in bankruptcy or on a company's value (including that a bankruptcy case may damage or diminish a company's relationship with its customers and/or suppliers). Many of the events within a bankruptcy case may be adversarial and are often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions in a bankruptcy case, a court may still approve actions which are contrary to the interests of creditors, potentially including the relevant Client.

Generally, the duration of a bankruptcy or insolvency case is difficult to predict. The reorganization of a company in bankruptcy usually involves the development and negotiation of a plan of reorganization, court approval to solicit creditor votes on that plan, plan approval by creditors and confirmation by the court. This process can involve substantial legal, professional and administrative costs to the company and the relevant Client; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. In addition, the debt of companies in financial reorganization may, in some cases, not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental value. Further, a debtor seeking to reorganize under U.S. federal bankruptcy law will frequently obtain a "first day" order from the bankruptcy court limiting trading in

claims against, and shares of, the debtor in order to maximize the debtor's ability to utilize net operating losses following a successful reorganization.

During a bankruptcy case, an automatic stay will generally prevent all creditors from taking action against the debtor to collect on amounts owed to such creditors, unless the court lifts that automatic stay for a specified action or purpose. Unless a creditor's claim in such case is secured by assets having a value in excess of such claim, it is likely interest will not be permitted to accrue and, therefore, a creditor's return on investment can be adversely affected by the passage of time during which the plan of reorganization of the debtor is being negotiated, approved by the creditors and confirmed by the bankruptcy court.

A debtor's administrative costs in connection with a bankruptcy proceeding are frequently high and will generally be paid out of the debtor's estate prior to any return to creditors (other than out of assets or proceeds thereof which are subject to valid and enforceable liens and other security interests) and equity holders. In addition, certain claims that have priority by law over the claims of other creditors (for example, claims for certain taxes) may be quite high.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that a Client's influence with respect to a class of instruments can be diminished by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. Even valid claims in bankruptcy cases often recover less than the amount of the claim and, depending on the debtor's assets and liabilities, there may be no recovery at all for some classes of creditors. At the outset of a bankruptcy case, only the debtor may file a proposed plan of reorganization. While the U.S. Bankruptcy Code permits other parties-in-interest to file proposed plans of reorganization and solicit creditor votes on such plans after a debtor's "exclusivity periods" to do so end, bankruptcy courts often extend the debtor's exclusive periods, which effectively permits only the debtor to file a proposed reorganization plan. While creditors can vote on approved plan(s) of reorganization, the unanimous consent of all creditor classes is not necessarily required for the bankruptcy court to confirm a plan. Therefore, in certain circumstances a plan can, subject to the provisions of the U.S. Bankruptcy Code, be "crammed down" on dissenting classes of creditors.

Even if a class of claims is entitled to a recovery in a bankruptcy proceeding, such recovery could be in the form of instruments or interests different from the form of instrument or interest which formed the basis for the creditor's initial claim, including debt securities, equity securities, warrants, options, cash, interests in litigation claims or trusts formed to pursue such litigation claims, interests in liquidation trusts, or other property or interests, any of which could be illiquid and/or difficult to value.

Notwithstanding the corporate structure of various debtor entities, such as special purpose entities created to hold assets and to structure for bankruptcy remoteness, such entities may, in certain cases, be consolidated in bankruptcy proceedings, which can affect the outcome of such proceedings and the amounts ultimately received by creditors.

Portfolio investments may include securities or obligations collateralized by assets located outside of the United States, or of issuers organized under the laws of jurisdictions other than the United States. Similarly, issuers of securities constituting portfolio investments may have a principal place of business or substantial assets located outside of the United States. As a result, such securities or obligations may be subject to bankruptcy or insolvency laws of non-U.S. jurisdictions. These laws may be substantially less favorable to creditors than the U.S. Bankruptcy Code.

The U.S. Bankruptcy Code and other laws and regulations affecting debtors' and creditors' rights are subject to change, including by way of legislative action or judicial interpretation. Any such actions could

alter the expected outcome or introduce greater uncertainty regarding the expected outcome of an investment situation of an affected Client, which may adversely affect such investment or the relevant Client's investment program.

Fraudulent Conveyance Risk

Various U.S. federal and state and applicable foreign laws enacted for the protection of creditors may apply to the purchase of the Clients' investments by virtue of the Clients' role as creditors with respect to the borrowers under such investments. In general, if payments on an investment are voidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as the Clients) or from subsequent transferees of such payments, including investors.

Borrower Fraud

Of concern is the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Clients to perfect or effectuate a lien on any collateral securing the loan. The Clients cannot guarantee the accuracy or completeness of representations made by and information provided by borrowers. Under certain circumstances, payments to the Clients may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Lender Liability Considerations and Equitable Subordination

In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of the Clients' investments, such Clients could be subject to allegations of lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of the other creditors of such borrower, a court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called "equitable subordination." Because of the nature of certain of the Clients' and their affiliates' investments, such Clients could be subject to claims from creditors of an obligor that such Clients' investments issued by such obligor should be equitably subordinated.

Participation on Creditors' Committees

Certain Clients may participate on committees formed by creditors to negotiate the management of financially troubled companies that may or may not be in bankruptcy or such Clients may seek to negotiate directly with the debtors with respect to restructuring issues. If a Client does join a creditors' committee, the participants of the committee would be interested in obtaining an outcome that is in their respective individual best interests and there can be no assurance of obtaining results most favorable to

such Client in such proceedings. By participating on such committees, the Clients may be deemed to have duties to other creditors represented by the committees, which might thereby expose such Clients to liability to such other creditors who disagree with such Clients' actions.

Certain Clients may also be provided with material non-public information that may restrict such Clients' ability to trade in the company's securities or be subject to other limitations on trading. While the Clients generally intend to comply with all applicable securities laws and to make judgments concerning restrictions on trading in good faith, the Adviser's judgments may ultimately be incorrect, and the Client's trading in a restructuring could result in litigation and liability that may cause the Clients to incur significant legal fees and potential losses. As the Clients will typically indemnify any person serving on a committee on its behalf for claims arising from the breaches of those obligations, indemnification payments could adversely affect the return on the Clients' investments in a portfolio company.

Custodian and Counterparty Risk

One or more banks or broker-dealers will act as custodians or could act as prime brokers for certain assets of Clients. These counterparties could provide certain clearing, including prime brokerage, margin financing or other financing facilities in addition to custodial functions. Such institutions (including the custodians or any of the Clients' affiliates rendering similar services to the extent permissible) hold certain assets of the Clients in their own name and in non-segregated accounts. Bankruptcy or fraud at one of these institutions or other entities could impair the operational capabilities or the capital position of the Clients or result in its inability of the institution to perform its obligations. Certain brokers and custodians will typically have general custody of the assets of the Clients, and the failure of a broker or custodian may result in adverse consequences to the assets held and may in turn have an adverse effect on the value of the Interests.

Other Instruments and Future Developments

Certain Clients may take advantage of opportunities in the area of swaps, options on various underlying instruments and swaptions and certain other customized "synthetic" or derivative investments. In addition, Clients may take advantage of opportunities with respect to certain other "synthetic" or derivative instruments which are not presently contemplated for use by such Client or which are currently not available, but which may be developed to the extent such opportunities are both consistent with the such Client's investment objective and legally permissible for such Client. Such synthetic and derivative instruments may include risks not contemplated herein. Certain Clients may also take advantage of opportunities using other forms of securities and instruments not presently described herein. Clients may invest in a general category of security or instrument listed herein and, where applicable, with particular emphasis on a certain type of security, but unless the relevant Client is otherwise prohibited from investing in a particular type of security or instrument by statements in its offering memorandum or governing documents or under applicable law, a Client's investments are not limited to the categories listed herein or the securities and instruments specifically enumerated under each category.

Cash and Other Investments

Certain Clients may invest all or a portion of their assets in cash or cash items for investment purposes, pending other investments or as provision of margin for futures or forward contracts. These cash items must be of high quality at the time of investment and may include a number of money market instruments such as negotiable or non-negotiable securities issued by or short-term deposits with the U.S. and non-U.S. governments and agencies or instrumentalities thereof, bankers' acceptances, high quality commercial paper, repurchase agreements, bank certificates of deposit, and short-term debt securities of U.S. or non-U.S. issuers deemed to be creditworthy by the Adviser. Certain Clients may also hold

interests in investment vehicles that hold cash or cash items. While investments in cash items generally involve relatively low risk levels, they may produce lower than expected returns, and could result in losses. Investments in cash items and money market funds may also provide less liquidity than anticipated by the Clients at the time of investment.

The foregoing risks do not purport to be a complete explanation of all the risks involved in acquiring an Interest in any of the Clients. Prospective investors are urged to read the entire offering memorandum and the governing documents of the prospective Client before making a determination whether to invest.

Item 9. Disciplinary Information

Neither the Adviser nor any of its management persons have been subject to any material disciplinary events in the previous ten years.

Item 10. Other Financial Industry Activities and Affiliations

A. Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

B. Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

C. Other Relationships that are Material to the Adviser's Advisory Business

Related General Partners

Various limited partnerships and/or limited liabilities companies (the "General Partners") serve as general partners of certain of the Clients. For a description of material conflicts of interest which may be created by the relationship among the Adviser and the General Partners, as well as a description of how such conflicts would be addressed, should they arise, please see Item 11 below.

Affiliated Advisers

ACM does not currently have any affiliated advisers.

Related Broker-Dealers

ACM does not currently have any related broker-dealers.

Other Advisers

A representative of NB Alternatives Advisers LLC ("NB Alternatives") sits on the investment committee of certain of the Funds, NB Alternatives acts as sub-advisor to certain of the Funds and provides certain support services to such Funds pursuant to a Sub-Advisory and Ancillary Services Agreement between the Adviser and NB Alternatives, and the Adviser acts as sub-advisor to an affiliate of NB Alternatives with respect to certain of the Funds.

As compensation for its services, the Adviser has agreed to pay NB Alternatives or its affiliates certain fees, including a fee calculated as a percentage of the value of certain investors' capital commitments to certain of the Funds. Further, NB Alternatives is entitled to receive a portion of the management fees paid by certain Funds and a portion of the carried interest distributions made by certain Funds.

For a more detailed discussion of how this relationship may give rise to material conflicts of interest, see *"Conflicts Associated with the Funds' Relationship with Neuberger Berman"* in Item 11 below.

Co-Investments, Joint Ventures and Third-Party Involvement

Certain Funds co-invest with third-parties through partnerships, joint ventures or other entities. The Advisor may from time to time but has no obligation (other than as specified in side letters or other similar agreements with one or more limited partners) to offer co-investment opportunities to limited partners or other third parties. From time to time, a Fund may make an investment with the expectation of offering a portion of its interests therein as a co-investment opportunity to limited partners and/or other third-party investors. There can be no assurance that the Fund will be successful in syndicating such co-investment, in whole or in part, that the closing of such co-investment will be consummated in a timely manner, that the syndication will take place on terms and conditions that will be preferable for the Fund or that expenses incurred by the Fund with respect to such syndication will not be substantial. In the event that the Fund is not successful in syndicating such co-investment, in whole or in part, the Fund would consequently hold a greater concentration and have more exposure in the related investment than initially was intended, which could make the Fund more susceptible to fluctuations in value resulting from adverse economic and / or business conditions with respect thereto. Moreover, an investment by the Fund which is not syndicated to co-investors as originally anticipated could increase the Funds otherwise anticipated expenses and significantly reduce the Fund's overall investment returns.

Side Letters

Certain Funds have and may in the future enter into agreements, or "side letters," with certain prospective or existing limited partners or shareholders whereby such limited partners or shareholders may be subject to terms and conditions that are more advantageous than those set forth in the offering memorandum for the applicable Fund. For example, such terms and conditions may provide for special rights to make future investments in the Fund, other investment vehicles or managed accounts; special redemption rights, relating to frequency or notice; a waiver or rebate in fees or redemption penalties to be paid by the limited partner or shareholder and/or other terms; rights to receive reports from the partnership on a more frequent basis or that include information not provided to other limited partners or shareholders (including, without limitation, more detailed information regarding portfolio positions) and such other rights as may be negotiated by the Fund and such limited partners or shareholders. The modifications are solely at the discretion of the Fund and may, among other things, be based on the size of the limited partner's or shareholder's investment in the Fund or affiliated investment entity, an agreement by a limited partner or shareholder to maintain such investment in the Fund for a significant period of time, or other similar commitment by a limited partner or shareholder to the Fund.

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

Code of Ethics

The Adviser has adopted a Code of Ethics (the “Code”) that obligates the Adviser and its related persons to put the interests of the Adviser’s Clients before their own interests and to act honestly and fairly in all respects in their dealings with Clients. All of the Adviser’s personnel are also required to comply with applicable federal securities laws. Clients or prospective clients may obtain a copy of the Code by contacting Andrew C. Hyman (Chief Compliance Officer) by email at ahyman@athyrium.com, or by telephone at 212-402-6925.

The Adviser, in the course of its investment management and other activities (e.g., board or creditor committee service), may come into possession of confidential or material nonpublic information about issuers, including issuers in which the Adviser or its *related persons* have invested or seek to invest on behalf of Clients. The Adviser is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other *person*, regardless of whether such other *person* is a Client. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information to *persons* who do not have a legitimate need to know such information and to assure that the Adviser is meeting its obligations to Clients and remains in compliance with applicable law. In certain circumstances, the Adviser may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be prohibited from communicating such information to the Client or using such information for the Client’s benefit. In such circumstances, the Adviser will have no responsibility or liability to the Client for not disclosing such information to the Client (or the fact that the Adviser possesses such information), or not using such information for the Client’s benefit, as a result of following the Adviser’s policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

The Adviser requires its *related persons* to preclear certain securities transactions, limited offerings and initial public offerings in their personal accounts with the CCO, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one of its Clients or if the security is on the firm’s restricted list. All of the Adviser’s *related persons* are required to disclose their securities transactions on a monthly basis and holdings on an annual basis. Trading in *employee* accounts will be reviewed by the CCO or his delegate and compared against the investments that have been precleared.

Participation or Interest in Client Transactions

The Adviser and certain employees and affiliates of the Adviser have invested and may in the future invest in and alongside the Clients, either through the General Partners, as direct investors in the Clients or otherwise. A Client or its General Partner, as applicable, may reduce all or a portion of the management fee and carried interest related to investments held by such persons. For further details regarding these arrangements, as well as conflicts of interest which may be presented by them, please see “*Conflicts of Interest*” immediately below.

Investor Due Diligence Information

Due in part to the fact that potential investors in a Client (including purchasers of a limited partner’s interests in a secondary transaction) may ask different questions and request different information, the

Adviser may provide certain information to one or more prospective investors that it does not provide to all of the prospective or current investors of the Client.

Conflicts of Interest

The purchase of Interests in the Clients involves a number of significant risks that should be considered before making any investment. The Adviser and its affiliates, along with NB Alternatives, Neuberger Berman Group LLC, and certain affiliates and employees of NB Alternatives and Neuberger Berman Group LLC (collectively, “Neuberger Berman”) engage in a broad range of activities, including investment activities for their own account and for the account of other investment funds or accounts. In the ordinary course of conducting their activities, the interests of the Clients may conflict with the interests of the Adviser or other funds or accounts advised by the Adviser, Neuberger Berman or their affiliates. A description of certain of these potential conflicts of interest is provided below.

The discussion below does not necessarily describe all conflicts that may arise, and all information in this section is subject to the specific disclosures included in each applicable Client’s offering memorandum, governing documents, and/or Advisory Agreements. Any references to the Adviser or Neuberger Berman in this section will be deemed to include their respective affiliates, partners, members, shareholders, officers, directors and employees.

Resolution of Conflicts

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

- (1) A Client will not make an investment unless the Adviser believes that such investment is an appropriate investment considered solely from the viewpoint of such Client;
- (2) Many important conflicts of interest will generally be resolved by set procedures, restrictions or other provisions contained in the relevant offering and/or governing documents for the Clients;
- (3) Generally, each Client has established an advisory committee (an “LP Advisory Committee”), consisting of certain representatives of investors not affiliated with the Adviser. The LP Advisory Committees meet as required to consult with the Adviser as to certain potential conflicts of interest. On any issue involving actual conflicts of interest, the Adviser will be guided by its good faith discretion. If an LP Advisory Committee waives the conflict of interest or the Adviser acts in a manner, or pursuant to the standards and procedures, approved by such LP Advisory Committee with respect to the conflict of interest, then the Adviser will not have any liability to the applicable Client or its investors for such actions, including actions in pursuit of their own interests;
- (4) Where the Adviser deems appropriate, unaffiliated third parties may be used to help resolve conflicts, such as the use of a valuation agent to opine as to the fairness of a purchase or sale price; and

- (5) Prior to subscribing for interests in a Client, each investor receives information relating to significant potential conflicts of interest arising from the proposed activities of the Client.

Potential Conflicts

The material conflicts of interest encountered by the Clients include those discussed below, although the discussion below does not necessarily describe all of the conflicts that may be faced by a Client. Other conflicts are disclosed throughout this brochure, and in each Client's offering memorandum and/or governing documents, and such documents should all be read in their entirety for disclosure of material conflicts that may arise.

Devotion of Time

The Principals and other employees of the Adviser are not obligated to devote their full time to any particular Client, subject to the requirements described in each Client's offering memorandum and governing documents. The Adviser presently serves as adviser or sub-adviser to certain other accounts and investment funds, and the Adviser may serve as an investment adviser to certain additional accounts or investment funds in the future. Therefore, employees of the Adviser and its affiliates responsible for managing Clients have responsibilities with respect to other clients of the Adviser. Conflicts of interest may arise in allocating time, services or functions of these employees between clients.

Allocation of Investment Opportunities

In connection with its investment activities, the Adviser may encounter situations in which it must determine how to allocate investment opportunities among various Clients and other persons. The Adviser has adopted written policies and procedures relating to the allocation of investment opportunities, and will make allocation determinations consistently therewith.

Allocation decisions can raise conflicts, for example, if Clients have different fee structures. The Adviser seeks to allocate investments in a fair and equitable basis over time. In allocating investment opportunities, the Adviser will take into account a variety of factors that it considers relevant. The following factors may be taken into account by the Adviser in allocating investment opportunities among investment advisory clients:

- Clients' investment objectives and strategies;
- Clients' risk profiles;
- Clients' tax statuses;
- Clients' sector or industry exposures;
- any restrictions placed on a Client's portfolio by the Client or by virtue of federal or state law (such as the Employee Retirement Income Security Act of 1974, as amended ("ERISA"));
- size of a Client account;
- total portfolio invested position;
- nature of the security to be allocated;
- size of available position;

- prior investments in the applicable issuer's securities;
- suitability as a follow-on investment for a current portfolio company of a Client;
- supply or demand for a security at a given price level;
- current market conditions;
- timing of cash flows and account liquidity;
- amount of capital available for investment by each Client as well as each Client's projected future capacity for investment; and
- any other information determined to be relevant to the fair allocation of securities.

Even client accounts that are typically managed on a *pari passu* basis may from time to time receive differing allocations of securities based on the Adviser's consideration of the factors listed above.

The Adviser's procedures also require fair and equitable allocation for limited opportunities (such as initial public offerings ("IPOs") and private placements) among client accounts. These areas are monitored by the Adviser's Chief Compliance Officer (the "CCO").

Securities acquired by the Adviser for its Clients through IPOs and private placements will be allocated pursuant to the procedures set forth below: (i) if the Adviser receives a full allocation of securities in an IPO, the securities will be allocated by the Adviser to eligible/participating client accounts in accordance with the proposed allocations provided by the Adviser, or (ii) if the Adviser receives less than a full allocation of securities in an IPO, the securities will be allocated by the Adviser to eligible/participating client accounts based upon the account size of each participating account. The Adviser will determine the proposed allocations of IPO securities after considering the factors described above with respect to general allocations of securities. Only those client accounts that have established their eligibility to participate in IPOs with the Adviser can participate in IPO allocations.

Securities acquired by the Adviser for its Clients through a limited offering will be allocated pursuant to the procedures set forth in the Adviser's allocation policy, as described above. Eligibility of a Client to participate in such offerings will be based on the legal status of the Client and the Client's investment objectives and strategies.

In exercising its discretion to allocate investment opportunities and fees and expenses, the Adviser may be faced with a variety of potential conflicts of interest. For example, in allocating an investment opportunity among Clients with differing fee, expense and compensation structures, the Adviser may have an incentive to allocate investment opportunities to the Clients from which the Adviser or its *related persons* may derive, directly or indirectly, a higher fee, compensation or other benefit. The Adviser will not allocate investment opportunities based, in whole or in part, on (i) the relative fee structure or amount of fees paid by any Client or (ii) the profitability of any Client.

Aggregation of Orders

From time to time, it may be appropriate for the Adviser to aggregate client orders for the purchase or sale of securities at the same broker-dealer. The Adviser will generally follow the guidelines set forth below in aggregating client orders for securities at the same broker-dealer, including any orders placed for private investment vehicles:

- no Client will be favored over any other Client other than as permitted under the Adviser's policies and procedures;
- each Client that participates in an aggregated order will participate at the average share price for all the Adviser's transactions in that security on a given business day or such shorter period, as applicable and transaction costs will be shared pro rata based on each client's participation in the aggregated order;
- if the aggregated order is filled in its entirety, it will be allocated among Clients in accordance with the Adviser's policies and procedures; and
- if the aggregated order is partially filled, it will be allocated among Clients pro rata.

Notwithstanding the foregoing, an aggregated order may be allocated following execution on a basis different from that specified in the allocation statement, if the reason for the different allocation is explained in writing and approved by the CCO no later than the close of trading on the day on which the order was executed. Reasons for allocation on a basis different from that specified in the allocation statement may include: a Client's investment guidelines and restrictions; available cash; liquidity requirements; legal regulatory reasons; and to avoid odd lots.

The Adviser will generally aggregate in the same transaction, the same securities for accounts where the Adviser has brokerage discretion. Such aggregation may enable the Adviser to obtain for Clients a more favorable price or a better commission rate based upon the volume of a particular transaction. However, in cases where the Client has negotiated the commission rate directly with the broker, the Adviser will not be able to obtain more favorable commission rates based on an aggregated trade. In such cases, the Client will be precluded from receiving the benefit of any possible commission discounts that might otherwise be available as a result of the aggregated trade.

In cases where trading or investment restrictions are placed on a Client's account, the Adviser may be precluded from aggregating that Client's transaction with others. In such a case, the Client may pay a higher commission rate and/or receive less favorable prices than Clients who are able to participate in an aggregated order.

Principal Transactions

Section 206 under the Advisers Act regulates principal transactions among an investment adviser and its affiliates, on the one hand, and the clients thereof, on the other hand. Very generally, if an investment adviser or an affiliate thereof proposes to purchase a security from, or sell a security to, a client (what is commonly referred to as a "principal transaction"), then the adviser must make certain disclosures to the client of the terms of the proposed transaction and obtain the client's consent to the transaction. The Adviser does not anticipate engaging in any principal transactions.

Cross-Transactions

The Adviser may generally effect cross transactions between discretionary Client accounts, except as otherwise noted below. Cross transactions enable the Adviser to effect a trade between two Clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and saving commission costs for both accounts. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar. The Adviser has a potentially conflicting division of loyalties and responsibilities

regarding both parties to cross transactions. Cross transactions between Client accounts are not permitted if they would constitute principal trades or trades for which the Adviser is compensated as a broker unless Client consent has been obtained based upon written disclosure to the Client of the capacity in which the Adviser will act. In addition, cross transactions are not permitted for benefit plan or other similar accounts that are subject to ERISA.

Transactions with Affiliates

Conflicts may also arise in connection with loans or other assets originated by one or more of the Clients and sold to one or more other parallel fund vehicles or other Clients of the Adviser. To the extent that a fund vehicle purchases loans or other assets and subsequently sells all or a portion thereof to other Clients of the Adviser (including another parallel fund vehicle), the Selling vehicle will bear the risk of changes in the value of such loans or other assets during the period it holds such loans or other amounts, and the amount of capital available to such vehicle to pursue other investment opportunities, including more profitable investment opportunities, may be reduced. It may be difficult to determine the value of the loans or other assets acquired by the selling Client(s) and hence the consideration due from the purchasing Client(s) in such acquisitions. The valuation of loans or other assets that may be transferred in such cross trades involves inherent conflicts of interest for the Adviser and there is no guarantee that the Adviser will resolve these conflicts in a manner that will not have an adverse effect on the Clients. Prospective investors should review the applicable offering materials and governing documents for more information.

Follow-on Investments

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

Conflicts Related to Purchases and Sales

The Adviser and officers, principals or employees of the Adviser may buy or sell securities or other instruments that the Adviser has recommended to Clients. In addition, such officers, principals or employees may buy securities in transactions offered to but rejected by Clients. Such transactions are subject to the policies and procedures adopted by the Adviser from time to time. The investment policies, fee arrangements, and other circumstances of these investments may vary from those of the Adviser's other Clients. The Adviser, certain of its principals and employees, and their relatives may invest in and alongside the Clients or other funds or accounts managed by the Adviser either through a general partner of the Clients or such other funds or accounts or as direct investors in the Clients or such other funds or accounts or otherwise, and therefore may have additional conflicting interests in connection with these investments.

A particular investment may be bought or sold for a Client in different amounts and at different times for one or more other funds or accounts managed by the Adviser even though it could have been bought or sold for such other funds or accounts at the same time. Likewise, a particular investment may be bought for a Client or one or more other funds or accounts when one or more of such funds or accounts are

selling the investment. Conflicts also may arise when a Client makes investments in conjunction with an investment being made by such other funds or accounts, or in a transaction where another fund or account has already made an investment. Investment opportunities may be appropriate for a Client and other funds or accounts managed by the Adviser at the same time, at different or overlapping levels of a portfolio company's capital structure. Conflicts may arise in determining the terms of investments, particularly where these Clients may invest in different types of securities in a single portfolio company. Questions may arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work out or restructuring may raise conflicts of interest, particularly in a Client and other funds or accounts managed by the Adviser that have invested in different securities within the same portfolio company.

Certain Clients of the Adviser may invest in bank debt and securities of companies in which other Clients hold securities, including equity securities, including in a controlling position. In the event that such investments are made by a Client or another fund or account managed by the Adviser, the interests of the Client may be in conflict with the interest of such other fund or account, particularly in circumstances where the underlying company is facing financial distress. The involvement of such persons at both the equity and debt levels could inhibit strategic information exchanges among fellow creditors. In certain circumstances, the Client or such other fund or account may be prohibited from exercising voting or other rights, and may be subject to claims by other creditors with respect to the subordination of its interest. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, a Client or such other fund or account may or may not provide such additional capital, and if provided the Client or such other fund or account will supply such additional capital in such amounts, if any, as determined by the Adviser. The Adviser may seek to address these conflicts by adopting policies and procedures designed to mitigate such conflicts but given the structure of the Adviser and its investment team may be unable to do so.

In addition, investments by more than one Client of the Adviser in a portfolio company may also raise the risk of using assets of a Client of the Adviser to support positions taken by other Clients of the Adviser. The Adviser will attempt to resolve any such conflicts of interest in good faith, but there can be no assurance that such conflicts of interest or actions taken by the Adviser in respect of other funds or accounts will not have an adverse effect on the investments made by a Client. There can be no assurance that the return of a Client participating in a transaction would be equal to and not less than any other fund or account participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

Diverse Limited Partner Group

Various investors may have conflicting investment, tax, regulatory and other interests with respect to their investments in the Clients. The conflicting interests of individual limited partners in a Client may relate to or arise from, among other things, the specific Client through which such limited partners invest, the nature of investments made by the Clients, and/or the structuring or the acquisition of portfolio investments. As a consequence, conflicts of interest may arise in connection with decisions made by the Adviser or NB Alternatives that may be more beneficial for one limited partner than for another, especially with respect to limited partners' individual tax situations. In selecting and structuring investments appropriate for the Clients, the Adviser will consider the investment and tax objectives of each Client and the investors therein as a whole, and not the investment, tax or other objectives of any particular investor individually. Certain investors are expected to, by virtue of the size of their investments or other special factors, negotiate special arrangements which are more beneficial than those obtained by other investors in the Clients.

Carried Interest; Management Fee

The existence of the Adviser's Carried Interest distributions could create an incentive for the Adviser to make or recommend riskier or more speculative investments for the Clients than would be the case in the absence of such arrangement. In addition, the fact that after the expiration of the investment period the management fee is calculated based on invested capital, rather than commitments, may create an incentive for the Adviser to (i) make more speculative investments than it otherwise would have made if management fees were based on commitments, (ii) seek to deploy the commitments in investments at an accelerated pace, (iii) hold investments longer than it otherwise would have if management fees were based on commitments and/or (iv) employ a greater degree of leverage than it otherwise would have if management fees were based on commitments. NB Alternatives and its affiliates are entitled to receive a portion of the management fees paid by certain Clients and a portion of the Carried Interest distributions made by certain Clients. See "*Conflicts Associated with the Clients' Relationship with Neuberger Berman*" below.

Other Fees

The Adviser earns arrangement fees and other transaction fees in connection with certain Clients' investment programs. The management fee payable by an investor in certain Clients is reduced by amounts equal to a percentage of such arrangement fees. This creates a conflict of interest to the extent such amounts are not offset against the management fee. The Adviser intends to retain strategic advisors, consultants, and other similar professionals who are not employees or affiliates of the Adviser and who may, from time to time, receive payments from, or allocations with respect to, the Clients' portfolio investments. In such circumstances, such amounts will not be deemed paid to or received by the Adviser and such amounts will not be subject to the offset provisions. Investors in "feeder" entities organized by NB Alternatives for the purpose of investing in the Clients may bear additional placement or other fees, as described in more detail in such entities' offering and subscription documents.

Other Conflicts; Possible Future Activities

Subject to its obligations under the governing documents of the Clients and applicable law, the Adviser and its Principals anticipate that they will engage in other investment, business or advisory activities in the future that could present potential conflicts of interest with the Clients, their investments and the implementation of the Clients' investment strategies.

The Adviser will have the power to resolve, or consent to the resolution of, conflicts of interest on behalf of, and such resolution will be binding on, the Clients. Investors should be aware that conflicts will not necessarily be resolved in favor of the Clients' investments.

The Adviser anticipates that it will expand the range of services that it provides over time. The Adviser will not be restricted in the scope of its business or in the performance of any such services (whether now offered or undertaken in the future) even if such activities could give rise to conflicts of interest, and whether or not such conflicts are described herein. The Adviser has, and will continue to develop, relationships with a significant number of companies, financial sponsors and their senior managers, including relationships with Clients who may hold or may have held investments similar to those intended to be made by the Clients. These Clients may themselves represent appropriate investment opportunities for the Clients or may compete with the Clients for investment opportunities.

Conflicts Associated with the Clients' Relationship with Neuberger Berman

As discussed in Item 10 above, the Adviser's relationship with NB Alternatives Advisers is material to the Adviser's advisory business, and such relationship may give rise to certain material conflicts of interest. For a complete description of such conflicts and how they are addressed with respect to each Client, please thoroughly review the applicable Client's offering memorandum, governing documents, and Advisory Agreements.

In the ordinary course of its investment activities, Neuberger Berman's activities or strategies, or the activities or strategies used for other accounts or funds managed by Neuberger Berman, may conflict with the transactions and strategies employed on behalf of the Clients. Certain of these potential conflicts of interest include:

- Neuberger Berman's trading activities are carried out generally without reference to positions held by the Clients and may have an effect on the value of the positions so held, or may result in Neuberger Berman having an interest in the issuer adverse to that of the Clients (e.g., Neuberger Berman may have a short position in a security held long by the Clients).
- Neuberger Berman may (i) sponsor or form one or more new investment vehicles or funds, (ii) manage or advise other investment vehicles, accounts and clients, or (iii) offer, on an agency basis for third parties, interests in other investment vehicles, having objectives similar, in whole or in part, to those of the Clients, including other collective investment vehicles in which Neuberger Berman may have an equity interest. Neuberger Berman holds interests in, and furnishes advisory, consulting and/or management services to, other persons or entities with respect to investments similar to or different from investments of the Clients. Neuberger Berman manages, on an independent and autonomous basis, several investment vehicles in which it is currently investing on behalf of third-party investors, Neuberger Berman and/or eligible employees. The Clients will not have any rights to investment opportunities in relation to the rights of such other vehicles or accounts. Neuberger Berman may also furnish similar management, advisory and/or consulting services to certain separate accounts or make investments for its own account.
- Neuberger Berman may, from time to time, be presented or have available to it investment opportunities that could be appropriate for investment by the Clients. There can be no assurance that the Clients will have the opportunity to participate in investments presented or available to Neuberger Berman. In addition, Neuberger Berman or its employees or investment vehicles, accounts and clients managed or advised by Neuberger Berman may be offered the opportunity to co-invest, and may co-invest, alongside the Clients from time to time.
- Client portfolio investments may involve (directly or indirectly) new or follow-on investments in companies in which Neuberger Berman, or other investment funds or vehicles, accounts and clients managed or advised by Neuberger Berman, have made or will make investments. Such investments by such other Neuberger Berman funds, vehicles, accounts or clients may have been or may be made at different prices and on different terms than the Clients' investments in the same companies. No assurance can be given that the Clients will realize identical economic results from an investment in a portfolio company as such other Neuberger Berman funds, vehicles, accounts or clients, and as a result thereof the interests of Neuberger Berman or such other investment funds vehicles, accounts and clients, on the one hand, and the interest of the Clients, on the other hand, in restructuring, exercising with respect to or realizing such investments in the same companies may differ. In addition, there may be situations in which new or follow-on investments in existing Client portfolio companies are made by Neuberger Berman or other investment funds, vehicles, accounts and clients managed or advised by Neuberger

Berman but with respect to which the relevant Client does not participate because of concentration, capital availability or other reasons. Such follow-on investments may be made by Neuberger Berman or such other Neuberger Berman funds, vehicles, accounts or clients at prices or on terms that are different than the prices of, or terms applicable to, the relevant Client's existing investments in such portfolio companies.

- Neuberger Berman or its sponsored or managed funds and accounts may hold investments in entities that are engaged in similar businesses to those of the Clients or the Clients' investments. As a result, such other entities may compete with the Clients for investment opportunities. Neuberger Berman will be able to pursue other business activities and provide services to third parties that compete directly with the Clients, including third parties that sponsor or manage a private equity Clients, hedge fund or fund of funds that makes investments that are similar to the types of investments that the Clients intends to make. In addition, Neuberger Berman has established or advises, and may continue to establish or advise, other investment entities that rely on the diligence, skill and business contacts of Neuberger Berman's investment professionals and the information and deal flow they generate during the normal course of their activities. The requirements of these entities may be substantial and may cause Neuberger Berman to divert some of the resources and professionals that would otherwise be made available. Some of these entities may also have investment objectives that overlap to some degree with certain Client's investment objectives and Neuberger Berman may have greater financial incentives to assist those other entities over the relevant Clients. To the extent that Neuberger Berman engages in activities for itself or others, those activities may be detrimental to a Client's business and adverse to the interests of its investors and may, in some cases, lead to the allocation of investment opportunities to others.
- As a result of the investment management, advisory and related activities of Neuberger Berman, as well as investments made by Neuberger Berman for its own account, Neuberger Berman may acquire confidential or material non-public information and therefore be restricted from initiating transactions in certain securities. Disclosure of such information to the Principals will be on a need-to-know basis only, and the Clients may not be free to act upon any such information. Therefore, the Clients may not be provided access to material non-public information in the possession of Neuberger Berman which might be relevant to an investment decision to be made by the Clients, and the Clients may initiate a transaction or sell a portfolio investment which, if such information had been known to it, may not have been undertaken. In the event any material, non-public information is disclosed to any person responsible for the affairs of a Client, the Client may be prohibited by applicable securities laws and Neuberger Berman's internal policies from acting upon any such information. Due to these restrictions, the Client may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell a portfolio investment that it otherwise might have sold. In other cases, because of confidential or material non-public information acquired by other business units of Neuberger Berman, a Client may also be prohibited from acquiring or selling such portfolio investment.
- Certain members of NB Alternatives and other Neuberger Berman teams providing support to the Clients and on the Client's Investment Committees have additional responsibilities to Neuberger Berman in their respective capacities as senior executives of Neuberger Berman. Additionally, other Neuberger Berman employees providing services to the Clients or the Adviser will have other responsibilities to Neuberger Berman.
- Certain Clients pay fees to administrators which include affiliates of Neuberger Berman for accounting and administrative services at rates that the Adviser determines in good faith could be obtained on an arm's length basis. Neuberger Berman may also provide a broad range of financial and other services to entities in which the Clients invest or to the Clients and Neuberger

Berman generally will be paid fees (which may include warrants or other securities) for such services.

- Subject to the terms of its governing documents, a Client Fund may engage in transactions with its affiliates by, for example, co-investing with Neuberger Berman and affiliates of Neuberger Berman (including employee funds and other funds or accounts sponsored or managed by Neuberger Berman) in portfolio companies, and may invest in entities in which Neuberger Berman or its affiliates hold material investments and with which Neuberger Berman may have important business relationships. The Clients may make investments in portfolio companies from time to time in transactions where Neuberger Berman is acting as agent, manager or otherwise on the other side of the transaction or for other parties in the transaction. Any such transaction will be made only on terms, including the consideration to be paid, that are determined by the General Partner to be appropriate for the Clients.

Item 12. Brokerage Practices

The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include net price, reputation, financial strength and stability, efficiency of execution and error resolution, and offering to the Adviser on-line access to computerized data regarding a Client's accounts. In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates, thus a Client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. The Adviser's personnel meet at least annually to evaluate the broker-dealers used by the Adviser to execute client trades using the foregoing factors.

Soft Dollars

The Adviser's investment strategy is such that the Adviser does not anticipate that it will engage in securities transactions on behalf of its Clients that would generate soft dollars. To the extent that the Adviser does engage in securities transactions on behalf of Clients that do generate soft dollars, the Adviser will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement

instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

If the Adviser uses client commissions to obtain Section 28(e) eligible research and brokerage products and services, the Adviser's CCO, traders and portfolio managers will meet periodically to review and evaluate its soft dollar practices and to determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination will be viewed in terms of either the specific transaction or the Adviser's overall responsibilities to the accounts or portfolios over which the Adviser exercises investment discretion.

The use of client commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, the Adviser will not have to pay for the products and services itself. This would create an incentive for the Adviser to select or recommend a broker-dealer based on its interest in receiving those products and services.

If the Adviser receives soft dollar benefits, the Adviser intends to use such soft dollar benefits to service all of its Clients' accounts. The Adviser is not required to apply such soft dollar benefits to Client accounts proportionately to the soft dollar credits the accounts generate.

In some instances, the Adviser may obtain a product or service that is used, in part, by the Adviser for Section 28(e) eligible purposes and, in part, for other purposes. In such instances, the Adviser will make a good faith effort to determine the relative proportion of the product or service used to assist the Adviser in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). Such determination will be based on its evaluation of the research and non-research uses of the product. The proportion of the product or service attributable to assisting the Adviser in carrying out its investment decision-making responsibilities will be paid through brokerage commissions generated by client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by the Adviser from its own resources. The determination of the appropriate allocation of "mixed use" products and services creates a potential conflict of interest between the Adviser and Clients.

If the client is subject to ERISA, the Adviser will request that the Client represent that the products or services obtained for soft dollars will be used exclusively for the benefit of the plan's participants and their beneficiaries.

Directed Brokerage

Although the Adviser does not intend to agree to any Client directed brokerage arrangements, in certain instances, Clients may seek to limit or restrict the Adviser's discretionary authority in making the determination of the brokers with whom orders for the purchase or sale of securities are placed for execution, and the commission rates at which such securities transactions are effected. Clients may seek to limit the Adviser's authority in this area by directing that transactions (or some specified percentage of transactions) be executed through specified brokers in return for portfolio evaluation or other services deemed by the client to be of value. Any such Client direction must be in writing, and should contain a representation from the Client that the arrangement is permissible under its governing laws and documents.

When Clients direct trades to particular brokers, with respect to their directed trades, they will be treated as if they have retained the investment discretion that the Adviser otherwise would have in selecting

brokers to effect transactions and in negotiating commissions, and such direction may adversely affect the Adviser's ability to obtain best execution. In addition, when a Client directs trade to particular brokers, such orders may not be aggregated with other orders and may be submitted after other orders have been filled, and such direction may otherwise hinder best execution and may cost the Client more money as the Client may receive less favorable prices.

Aggregation of Purchases and Sales

For a description of the Adviser's policies and procedures concerning the aggregation of the purchase or sale of securities for Clients, see "*Aggregation of Orders*" in Item 11 above.

Item 13. Review of Accounts

Oversight and Monitoring

The Adviser provides continuous advisory services for the Clients and performs various periodic reviews of each Client's portfolio. In addition, a review may be triggered by special circumstances. Significant market events affecting the prices of one or more investments in client accounts, changes in the investment objectives or guidelines of a particular Client, or specific arrangements with particular Clients may trigger reviews of client accounts on other than a periodic basis. The portfolio investments of each Client are primarily reviewed by senior investment professional or senior investment professionals responsible for the applicable client account.

Reporting

Each Client that is a Specific Vehicle will receive quarterly reports providing valuations from the Adviser, along with annual audited financial statements prepared in accordance with U.S. generally accepted accounting principles. Such reports may be delivered electronically to the Client in accordance with the applicable Advisory Agreements and/or the governing documents of the applicable Client.

The Funds' investors receive reports pursuant to the terms of each Fund's offering memorandum or as otherwise described in the offering and governing documents of the Fund.

Item 14. Client Referrals and Other Compensation

While not a client solicitation arrangement, the Adviser notes that it may from time to time engage one or more persons to act as a placement agent for a Client in connection with the offer and sale of interests to certain prospective investors. Such persons generally will receive a fee in an amount equal to a percentage of the capital commitments for interests in a Client that are accepted by such Client's general partner or board of directors with respect to such prospective investors. Such fees will be negotiated individually between the Adviser and such person. Where applicable, cash payments for client solicitations will be structured to comply fully with the requirements of Rule 206(4)-3 under the Advisers Act and related SEC staff interpretations.

Item 15. Custody

The Adviser has *custody* of certain client funds and securities, which are held by third party qualified custodians.

Item 16. Investment Discretion

The Adviser provides investment advisory services on a *discretionary basis* to certain of its Clients. Please see Item 4 for a description of any limitations Clients may place on the Adviser's *discretionary authority*.

Prior to assuming full/limited discretion in managing a Client's assets, the Adviser enters into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion.

Unless otherwise instructed or directed by a discretionary Client, the Adviser has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in certain Clients' investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among Clients in invested positions and securities held.

Item 17. Voting Client Securities

The Adviser's Clients generally invest in instruments that do not have attached voting rights. However, the Adviser has been delegated proxy voting authority on behalf of its Clients for any investments that may have attached voting rights.

The Adviser has established written policies and procedures setting forth the principles and procedures by which the Adviser votes or gives consent with respect to securities owned by its Clients ("Votes"). When the Adviser has discretion to vote the proxies of its Clients, it will vote those proxies in the best interest of its Clients and in accordance with such policies and procedures.

In the absence of specific voting guidelines from the Client, the Adviser will vote proxies in the best interests of each particular Client, which may result in different voting results for proxies for the same issuer. The Adviser has adopted a set of voting guidelines it believes will result in the Adviser voting proxies in the best interests of its Clients.

Clients generally cannot direct the Adviser's Vote.

All voting decisions initially are referred to the CCO, who will then typically refer them to the appropriate investment professional for a voting decision. In most cases, the Adviser's investment professional covering the particular investment will make the decision as to the appropriate vote for any particular Vote. In making such decision, he or she may rely on any of the information and/or research available to him or her. If the investment professional is making the voting decision, the investment professional will

inform the CCO of any such voting decision, and if the CCO does not object to such decision as a result of his or her conflict of interest review, the Vote will be voted in such manner.

The CCO has the responsibility to monitor Votes for any conflicts of interest, regardless of whether they are actual or perceived. All voting decisions will require a mandatory conflicts of interest review by the CCO in accordance with the Adviser's policies and procedures, which will include consideration of whether the Adviser or any investment professional or other person recommending how to vote has an interest in how the Vote is voted that may present a conflict of interest. In addition, all of the Adviser's investment professionals are expected to perform their tasks relating to the voting of Votes in accordance with the principles set forth above, according the first priority to the best interest of the relevant Clients. If a material conflict exists, the Adviser will determine whether voting in accordance with the voting guidelines and factors described above is in the best interests of the Client. The Adviser will also determine whether it is appropriate to disclose the conflict to the affected Clients and, except in the case of Clients that are subject to ERISA, give the Clients the opportunity to vote their proxies themselves.

Clients may contact the CCO via e-mail at ahyman@athyrium.com, or by telephone at 212-402-6925, in order to obtain information on how the Adviser voted such Client's proxies, and to request a copy of the Adviser's proxy voting policies and procedures. If a Client requests this information, the CCO will prepare a written response to the Client that lists, with respect to each voted proxy about which the Client has inquired, (a) the name of the issuer; (b) the proposal voted upon, and (c) how the Adviser voted the Client's proxy.

Item 18. Financial Information

This item is not applicable.

Item 19. Requirements for State-Registered Advisers

This item is not applicable.

BROCHURE SUPPLEMENT
(PART 2B OF FORM ADV)

Brochure Supplement

JEFFREY A. FERRELL

March 24, 2016

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This *brochure supplement* provides information about Jeffrey A. Ferrell that supplements the Athyrium Capital Management, LP *brochure*. You should have received a copy of that *brochure*. Please contact Andrew C. Hyman, Chief Compliance Officer, if you did not receive the Athyrium Capital Management, LP's *brochure* or if you have any questions about the contents of this supplement.

Item 2. Educational Background and Business Experience

Mr. Ferrell was born in November, 1974 in Newport Beach, California.

Mr. Ferrell graduated from Harvard College with an A.B. in Biochemical Sciences in 1997.

Mr. Ferrell was employed at Schroder Ventures (now SV Life Sciences) from 1997 to 2001. In 2001, Mr. Ferrell joined Lehman Brothers. Mr. Ferrell was a member of the firm's private equity division until 2005 when he became part of Global Trading Strategies. He was promoted to Senior Vice President in 2006 and was the senior portfolio manager in charge of life sciences related investments for Global Trading. His responsibilities included equities, fixed income, and structured securities. Mr. Ferrell joined Barclays Capital in September 2008 after the bankruptcy of Lehman Brothers and departed in November 2008.

In December 2008, Mr. Ferrell founded Athyrium Capital Management, LLC to focus on investments in the life sciences sector. In January 2015, Athyrium Capital Management, LLC converted into a limited partnership. Mr. Ferrell currently serves as the President of Athyrium Capital Management, LP alongside Mr. Lack.

Item 3. Disciplinary Information

There are no legal or disciplinary events material to a *client's* or prospective *client's* evaluation of Mr. Ferrell.

Item 4. Other Business Activities

Mr. Ferrell does not actively engage in any *investment-related* business or occupation outside of Athyrium Capital Management, LP.

Mr. Ferrell is not engaged in any outside business activity that represents more than 10 percent of his time or income.

Item 5. Additional Compensation

Mr. Ferrell does not receive economic benefit for providing advisory services to anyone who is not a *client*.

Item 6. Supervision

Mr. Ferrell is the President of Athyrium Capital Management, LP, and as such is not directly supervised relating to his advisory activities.

Item 7. Requirements for State-Registered Advisers

Not applicable.

Brochure Supplement

RICHARD T. PINES

March 24, 2016

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This *brochure supplement* provides information about Richard T. Pines that supplements the Athyrium Capital Management, LP *brochure*. You should have received a copy of that *brochure*. Please contact Andrew C. Hyman, Chief Compliance Officer, if you did not receive the Athyrium Capital Management, LP's *brochure* or if you have any questions about the contents of this supplement.

Item 2. Educational Background and Business Experience

Mr. Pines was born in September, 1979.

Mr. Pines graduated from Indiana University with a B.S. in both Finance and Accounting in 2001.

Mr. Pines was employed at Credit Suisse First Boston (now Credit Suisse) from 2001-2005. In 2005, Mr. Pines joined Lehman Brothers. Mr. Pines was a member of the Global Trading Strategies group, focusing on investments in the life sciences sector. His responsibilities included equities, fixed income and structured securities. Mr. Pines joined Barclays Capital in September 2008 after the bankruptcy of Lehman Brothers and departed in November 2008.

Mr. Pines joined Athyrium Capital Management, LLC in December 2008 to focus on investments in the life sciences sector. In January 2015, Athyrium Capital Management, LLC converted into a limited partnership. Mr. Pines currently serves as a senior investment professional of Athyrium Capital Management, LP.

Item 3. Disciplinary Information

There are no legal or disciplinary events material to a *client's* or prospective *client's* evaluation of Mr. Pines.

Item 4. Other Business Activities

Mr. Pines does not actively engage in any *investment-related* business or occupation outside of Athyrium Capital Management, LP.

Mr. Pines is not engaged in any outside business activity that represents more than 10 percent of his time or income.

Item 5. Additional Compensation

Mr. Pines does not receive economic benefit for providing advisory services to anyone who is not a *client*.

Item 6. Supervision

Mr. Ferrell is the President of Athyrium Capital Management, LP, and as such is directly supervising Mr. Pines' investment and advisory activities. Mr. Ferrell may be contacted at 212-402-6925.

Item 7. Requirements for State-Registered Advisers

Not applicable.

Brochure Supplement

Laurent D. Hermouet

March 24, 2016

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This *brochure supplement* provides information about Laurent D. Hermouet that supplements the Athyrium Capital Management, LP *brochure*. You should have received a copy of that *brochure*. Please contact Andrew C. Hyman, Chief Compliance Officer, if you did not receive the Athyrium Capital Management, LP's *brochure* or if you have any questions about the contents of this supplement.

Item 2. Educational Background and Business Experience

Mr. Hermouet was born in August, 1969.

Mr. Hermouet graduated from the University of Paris-Dauphine with a Masters in Finance – DESS 224 – in 1993.

Mr. Hermouet was employed with Citigroup Alternative Investments, a unit of Citigroup, from 2004 to 2008 as a Vice-President Senior Credit Analyst. Prior thereto, Mr. Hermouet worked at Goldman Sachs & Co in the Credit Risk Management & Advisory department.

In July 2009, Mr. Hermouet joined Mr. Ferrell at Athyrium Capital Management, LLC to focus on investments in the life sciences sector. In January 2015, Athyrium Capital Management, LLC converted into a limited partnership. Mr. Hermouet currently serves as a senior investment professional of Athyrium Capital Management, LP.

Item 3. Disciplinary Information

There are no legal or disciplinary events material to a *client's* or prospective *client's* evaluation of Mr. Hermouet.

Item 4. Other Business Activities

Mr. Hermouet does not actively engage in any *investment-related* business or occupation outside of Athyrium Capital Management, LP.

Mr. Hermouet is not engaged in any outside business activity that represents more than 10 percent of his time or income.

Item 5. Additional Compensation

Mr. Hermouet does not receive economic benefit for providing advisory services to anyone who is not a *client*.

Item 6. Supervision

Mr. Ferrell is the President of Athyrium Capital Management, LP, and as such is directly supervising Mr. Hermouet's investment and advisory activities. Mr. Ferrell may be contacted at 212-402-6925.

Item 7. Requirements for State-Registered Advisers

Not applicable.

Brochure Supplement

Jeremy D. Lack

March 24, 2016

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This *brochure supplement* provides information about Jeremy D. Lack that supplements the Athyrium Capital Management, LP *brochure*. You should have received a copy of that *brochure*. Please contact Andrew C. Hyman, Chief Compliance Officer, if you did not receive the Athyrium Capital Management, LP's *brochure* or if you have any questions about the contents of this supplement.

Item 2. Educational Background and Business Experience

Mr. Lack was born in October, 1976 in East Northport, New York.

Mr. Lack graduated from Cornell University with a B.S. in Industrial & Labor Relations in 1998 and from Oxford University with a D.Phil. in Biochemistry in 2001.

Mr. Lack was employed at the Cortec Group from 2012 to 2013 as a Managing Director. Prior to joining the Cortec Group, Mr. Lack was a Principal with New Leaf Venture Partners (NLVP) from 2009 to 2012. Before joining NLVP in 2009, Mr. Lack was a Partner at Orion Healthcare Equity Partners.

In June 2013, Mr. Lack joined Athyrium Capital Management, LLC. In January 2015, Athyrium Capital Management, LLC converted into a limited partnership. Mr. Lack currently serves as the President of Athyrium Capital Management, LP alongside Mr. Ferrell.

Item 3. Disciplinary Information

There are no legal or disciplinary events material to a *client's* or prospective *client's* evaluation of Mr. Lack.

Item 4. Other Business Activities

Mr. Lack does not actively engage in any *investment-related* business or occupation outside of Athyrium Capital Management, LP.

Mr. Lack is not engaged in any outside business activity that represents more than 10 percent of his time or income.

Item 5. Additional Compensation

Mr. Lack does not receive economic benefit for providing advisory services to anyone who is not a *client*.

Item 6. Supervision

Mr. Lack is the President of Athyrium Capital Management, LP, and as such is not directly supervised relating to his advisory activities.

Item 7. Requirements for State-Registered Advisers

Not applicable.

Brochure Supplement

Tarit “Hondo” Sen

March 24, 2016

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This *brochure supplement* provides information about Tarit “Hondo” Sen that supplements the Athyrium Capital Management, LP *brochure*. You should have received a copy of that *brochure*. Please contact Andrew C. Hyman, Chief Compliance Officer, if you did not receive Athyrium Capital Management, LP’s *brochure* or if you have any questions about the contents of this supplement.

Item 2. Educational Background and Business Experience

Mr. Sen was born in December, 1977 in Calcutta, India.

Mr. Sen graduated from Dartmouth College with an A.B. in Economics in 2000.

Mr. Sen was employed at Cetus Capital, LLC (“Cetus”) from 2007 to 2015 as a Vice President. Prior to joining Cetus, Mr. Sen was a Senior Associate with Littlejohn & Co., LLC (“Littlejohn”) from 2003 to 2007. Before joining Littlejohn in 2003, Mr. Sen was an Analyst at J.P. Morgan Securities, Inc.

In June 2015, Mr. Sen joined Athyrium Capital Management, LP and currently serves as a senior investment professional.

Item 3. Disciplinary Information

There are no legal or disciplinary events material to a *client's* or prospective *client's* evaluation of Mr. Sen.

Item 4. Other Business Activities

Mr. Sen does not actively engage in any *investment-related* business or occupation outside of Athyrium Capital Management, LP.

Mr. Sen is not engaged in any outside business activity that represents more than 10 percent of his time or income.

Item 5. Additional Compensation

Mr. Sen does not receive economic benefit for providing advisory services to anyone who is not a *client*.

Item 6. Supervision

Mr. Ferrell is the President of Athyrium Capital Management, LP and as such is directly supervising Mr. Sen's investment and advisory activities. Mr. Ferrell may be contacted at 212-402-6925.

Item 7. Requirements for State-Registered Advisers

Not applicable.