

**Item 1 – Cover Page**

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**PART 2A OF FORM ADV: FIRM BROCHURE**

**PROSIRIS CAPITAL MANAGEMENT LP**

March 31, 2014

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This brochure (this “Brochure”) provides information about the qualifications and business practices of Prosiris Capital Management LP. If you have any questions about the contents of this Brochure, please contact us at 212-291-7120 or [info@prosiris.com](mailto:info@prosiris.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Prosiris Capital Management LP is a SEC-registered investment adviser. Registration with the SEC or any state securities authority does not imply any level of skill or training.

Additional information about Prosiris Capital Management LP also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

The Investment Adviser is required to identify and discuss any material changes made to its Brochure since the last annual update.

The material changes to this Brochure since the Investment Adviser's last annual update are:

1. The Investment Adviser was converted from a Delaware limited liability company into a Delaware limited partnership and accordingly its name was changed from Prosiris Capital Management LLC to Prosiris Capital Management LP.
2. The address of the Investment Adviser was changed to 510 Madison Avenue, 7th Floor New York, New York 10022.
3. Serge Todorovich joined Prosiris as General Counsel and Chief Compliance Officer.
4. Prosiris Global Opportunities Institutional Fund Limited was launched on October 1, 2013 as a new feeder fund into Prosiris Global Opportunities Master Fund Limited.

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#### **Item 4 – Advisory Business**

Prosiris Capital Management LP (the “Investment Adviser”) is a Delaware limited partnership with its principal place of business in New York, New York. The Investment Adviser was founded in 2009 by Reza Ali who, as a limited partner of the Investment Adviser and as the managing member of the general partner of the Investment Adviser, Prosirir Capital Management GP LLC, a Delaware limited liability company (the “Investment Adviser General Partner”), along with members of his family and/or trusts affiliated with him and members of his family, are the principal owners of the Investment Adviser and control the Investment Adviser.

The Investment Adviser provides discretionary investment management services for the following pooled investment funds: (i) Prosirir Global Opportunities Master Fund Limited, a Cayman Islands exempted company (the “Master Fund”); (ii) Prosirir Global Opportunities Fund LLC, a Delaware limited liability company (the “U.S. Feeder Fund”); (iii) Prosirir Global Opportunities Fund Limited, a Cayman Islands exempted company (the “Cayman Feeder Fund”); (iv) Prosirir Global Opportunities Institutional Fund Limited, a Cayman Islands exempted company (the “Institutional Feeder Fund”); (v) Prosirir Opportunities Master Fund LP, a Delaware limited liability company (the “Opportunities Master Fund”); (vi) and Prosirir Opportunities Fund Limited, a Cayman Islands exempted company (the “Opportunities Feeder Fund”, and together with the Master Fund, the U.S. Feeder Fund, the Cayman Feeder Fund, the Institutional Feeder Fund and the Opportunities Master Fund, the “Funds”). The Investment Adviser is responsible for the day-to-day portfolio management of the assets of the Funds. The U.S. Feeder Fund, the Cayman Feeder Fund and the Institutional Feeder Fund invest all of their investable assets through a “master-feeder” structure in the Master Fund. Similarly, the Opportunities Feeder Fund invests all of its investable assets through a “master-feeder” structure in the Opportunities Master Fund.

In addition, the Investment Adviser serves as the investment adviser with discretionary trading authority and also provides discretionary advisory services to separately managed accounts (the “Managed Accounts”).

As used herein, the term “Client” generally refers to each Fund and each beneficial owner of a Managed Account.

As of March 1, 2014, the Investment Adviser had approximately \$1.5 billion of Client assets under management, all managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

### **A. Advisory Fees and Compensation.**

#### **1. Management Fee**

Investors in the Funds and Managed Accounts Clients generally bear a management fee, payable at the beginning of each month, up to 2% per annum of the net asset value of such investor's interests in the respective Fund.

#### **2. Incentive Distribution**

Generally, at the end of each fiscal year of the respective Fund or Managed Account, the Investment Adviser or its affiliates are entitled to an incentive distribution in an amount up to 20% of the net appreciation (including unrealized appreciation) in each investor's capital account, each series of shares of the Fund, or the net asset value of such Managed Account, as applicable, for such fiscal year, subject to a high water mark.

In the event that a Client is terminated or an investor withdraws or redeems on a date other than at the end of a fiscal year, then for purposes of determining the incentive distribution allocable at such time to the Investment Adviser or its affiliates, net capital appreciation will be determined as if such dates were the end of the fiscal year, subject to certain adjustments. The Investment Adviser may waive, reduce, or calculate differently the management fee or incentive allocation with respect to certain investors.

### **B. Payment of Fees.**

Fees and compensation paid to the Investment Adviser or its affiliates by the Clients are generally deducted from the assets of such Clients. As discussed above, Management Fees are generally deducted on a monthly basis and Incentive Distributions are generally deducted on an annual basis.

### **C. Additional Fees and Expenses.**

The operating and other expenses of the Institutional Feeder Fund, the Cayman Feeder Fund, the U.S. Feeder Fund and the Master Fund (together, the “Global Opportunities Fund Group”) incurred in order to hold, protect, purchase, sell, deliver and receive their assets are paid by the Master Fund. Similarly, the operating and other expenses of Opportunities Feeder Fund and the Opportunities Master Fund (together, the “Opportunities Fund Group” and collectively with the Global Opportunities Fund Group, the “Fund Groups” and each, a “Fund Group”) incurred in order to hold, protect, purchase, sell, deliver and receive its assets are paid by the Opportunities

Master Fund. In addition, the operating and other expenses of each Managed Account incurred in order to hold, protect, purchase, sell, deliver and receive their assets are paid by such Managed Account.

Expenses of each Fund Group and each Managed Account generally include without limitation: (i) brokerage commissions, borrowing charges, other indebtedness, withholding and transfer taxes, entity-level taxes, bank and service fees, and fees of the Investment Adviser, the administrator, the prime brokers, custodians, and other service providers; (ii) all external legal fees and expenses which, in the reasonable judgment of the Investment Adviser, are required or advisable to be incurred in order to protect the assets of the Fund Group or such Managed Account or in connection with the purchase, sale, or carrying of any securities, derivatives, futures and/or other assets of the applicable Master Fund or Managed Account as well as all other external legal fees relating to the internal administration of the Fund Group or such Managed Account; (iii) fees and expenses for accounting services (including an annual or more frequent audits); (iv) expenses incurred in connection with the preparation of reports; (v) costs associated with any software or additional programming deemed necessary by the Investment Adviser in the management of the applicable Master Fund or such Managed Account; (vi) the costs relating to research services and products utilized by the Investment Adviser on behalf of the applicable Master Fund or Managed Account (including the costs of Bloomberg, Intex, Trepp, and other live market feeds and on-line research); (vii) stamp duty and all other costs and expenses incurred for the actual or proposed acquisition or disposition of investments; (viii) fees and expenses incurred in connection with the organization, administration, and maintenance of, and legal compliance by, the Fund Group or each Managed Account (including any corporate secretarial fees and expenses); (ix) fees and expenses with respect to any member of the Fund Group's Boards of Directors who is independent of the Investment Adviser; (x) other professional fees, including any errors and omissions and director and officer liability insurance expenses incurred by the Investment Adviser for the benefit of the Fund Group or such Managed Account; (xi) travel expenses incurred in connection with investments, whether consummated or not (including, without limitation, investment-related travel expenses of consultants and experts); (xii) research expenses related to the strategy and investments of the applicable Master Fund or Managed Account; and (xiii) all other costs and expenses of the Fund Group or Managed Account as set forth in the applicable offering memorandum or constituent document. If any such operating costs are incurred by the Investment Adviser on behalf of a Fund Group, a Managed Account and any other investment vehicle(s) managed by the Investment Adviser, such costs will be borne pro rata by such Fund Group, Managed Account and such other investment vehicle(s) based on the amounts invested by such Fund Group, such Managed Account and such other investment vehicle(s) at the time such costs are incurred or in such other equitable manner as the Investment Adviser determines.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

The Investment Adviser has entered into performance fee arrangements with qualified Clients; such fees are subject to individualized negotiation with each such Client. The Investment Adviser will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 (the “Advisers Act”) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring Clients' assets for the calculation of performance-based fees, the Investment Adviser shall include realized and unrealized capital gains and losses. Performance-based fee arrangements may create an incentive for the Investment Adviser to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. The Investment Adviser has designed and implemented procedures to ensure that all Clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among Clients.

## **Item 7 – Types of Clients**

The Investment Adviser provides portfolio management services for Clients, as described above. Beneficial owners of Managed Accounts may include institutions, pension plans, high net worth individuals and other sophisticated investors.

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

### **A. Methods of Analysis and Investment Strategies.**

The Investment Adviser seeks to maximize total return primarily through investments in undervalued credit and structured finance assets and related markets. The Clients seek to capitalize on the Investment Adviser's experience in structured credit trading, which historically has involved taking long and short positions in illiquid and liquid credit instruments, backed by a deep understanding of the legal and credit aspects of structured finance technology. The Clients invest primarily in corporate and structured finance assets and their derivatives. Structured finance securities, such as collateralized debt obligations (“CDOs”), collateralized loan obligations (“CLOs”), mortgage-backed securities (“MBS”) and asset-backed securities (“ABS”) generally are debt securities that entitle the holders thereof to receive payments of interest and principal that depend primarily on the cash flow from or sale proceeds of a specified pool of assets, either fixed or revolving, that by their terms convert into cash within a finite time period,



together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities. Most are tranching investments with each tranche occupying a different position in seniority with respect to receiving cashflows and absorbing losses from the pool of assets. In addition to CDOs, CLOs, MBS and ABS, structured finance assets include, but are not limited to: (i) project and infrastructure finance; (ii) aircraft and equipment finance; (iii) intellectual property securitizations; (iv) future flow securitizations; and (v) student loans. The Clients may also purchase, or obtain synthetic exposure to, debt or equity securities of the obligors, investors, servicers, or credit enhancers of structured finance securities, sovereign or municipal issuers or of other entities which the Investment Adviser believes are mispriced.

The Investment Adviser will employ an integrated risk management approach. Common sources of risk across multiple positions, such as counterparty and/or sovereign exposure across a portfolio of structured credit and corporate credit assets, will be identified and aggregated, and, if appropriate, hedged.

The Investment Adviser believes that selective and opportunistic exposures to credit indices will complement the core strategy of the Investment Adviser by:

- Allowing the Investment Adviser to acquire attractive tail-risk protection to take advantage of market volatility and opportunistic dislocations that this creates;
- Exploiting relative value opportunities when the Investment Adviser believes synthetic investments are more attractive than the equivalent cash investment;
- Expressing systemic or idiosyncratic bullish or bearish views in a prompt timeframe while mitigating the reliance on asset availability, when the Investment Adviser believes the corresponding analysis is compelling; and
- Complementing the longer-dated structured finance assets with shorter-dated credit indices to manage the duration of the respective Client's portfolio.

**B. Material, Significant, or Unusual Risks Relating to Investment Strategies.**

**Availability of Investment Strategies.** The success of the Clients' investment activities will depend on the Investment Adviser's ability to identify investment opportunities as well as to assess the importance of news and events that may affect the financial markets. Identification and exploitation of the investment strategies to be pursued by the Clients involves a high degree of uncertainty. No assurance can be given that the Investment Adviser will be able to locate suitable investment opportunities in which to deploy all of the Clients' assets or to exploit discrepancies in the securities and derivatives markets.

**Borrowing and Leverage.** The Clients may borrow money from third parties from time to time for any purpose, including for the purpose of making investments. The Clients may purchase securities "on margin" or engage in short selling. Short sales, which are described below, are also

a form of leverage. These practices, depending upon the extent to which they are employed, may significantly increase the exposure of the Clients to adverse economic factors such as rising interest rates, continuation of the economic downturn or deterioration in the value of the investments purchased using leverage. When the Clients have borrowed money for leverage and their investments increase or decrease in value, the Clients' respective net asset values will increase or decrease more (possibly by multiples, depending upon the degree of leverage employed by the Clients at such time) than if the Clients had not borrowed money. In addition, the interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the investments purchased. The extent to which the Clients will borrow money, and the amount they may borrow, will depend on market conditions and interest rates. The Clients may also leverage their investment return with options, commodity futures contracts, short sales, swaps, credit default swaps, forwards, and other derivative instruments.

The Clients' use of borrowing results in certain additional risks. For example, should the securities pledged to brokers to secure a fund's margin accounts decline in value, that fund could be subject to a "margin call" and need to deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the fund's assets, that fund might not be able to liquidate assets quickly enough to pay off its margin debt. In the futures markets, margin deposits are typically low. Low margin deposits mean that a relatively small price movement in a futures contract may result in immediate and substantial losses. For example, if at the time of purchase ten percent (10%) of the price of a futures contract is deposited as margin, a ten percent (10%) decrease in the price of the futures contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for the brokerage commission.

The amount of borrowings which the Clients may have outstanding at any time may result in a significant negative impact on their capital. An investor may lose all, or a significant portion of, its investment as a result of borrowing by the Clients.

As a result of an economic downturn or dislocations in the credit markets, the Clients may be unable to obtain the desired amount of leverage or may be required to liquidate investments if existing leverage facilities are withdrawn or reduced, either of which could have an adverse impact on the returns to Shareholders.

**Concentration of Investments; Issuer Non-Diversification Risk.** The Clients may target or concentrate investments in particular regions, markets, sectors, or industries. As a result of such concentration, the Clients may be subject to greater short-term volatility than the broader market indexes than if it were to make investments diversified by regions, markets, sectors, or industries as those indexes do. By concentrating in a specific region or industry or targeting a specific sector that the Clients consider mispriced, such Clients are subject to the risks of that region, industry or sector, such as rapid obsolescence of technology, sensitivity to regulatory changes, minimal barriers to entry, and sensitivity to overall market swings. The Clients may invest a significant percentage of their assets in the securities of a small number of issuers. As a result, the Clients' investments may be more susceptible to risks associated with a single economic, political, or regulatory circumstance or event than a more diversified portfolio might be.

**Counterparty Risk.** Many of the markets in which the Clients effect their transactions are “over-the-counter” or “interdealer” markets. The participants in such markets, unlike participants in “exchange-based” markets, are typically not subject to credit evaluation and regulatory oversight. This exposes the Clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Clients to suffer a loss. An economic downturn or financial crisis can significantly increase the likelihood of counterparty default or insolvency. Such counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Clients have concentrated transactions with a single or small group of counterparties. The Clients are not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, the Clients have no internal credit function which evaluates the creditworthiness of its counterparties. The ability of the Clients to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties’ financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Clients.

In addition, many structured finance assets in which the Clients may invest include embedded derivatives to hedge, among other risks, interest rate, credit, or cashflow timing risk. Thus, ABS offerings are also subject to counterparty risk and amounts available to the issuing entity to pay interest and principal may depend in part on the operation of the derivative instrument and the performance by the derivative counterparty under the derivative instrument. If the ABS trust does not receive the payments it expects from the counterparty, the ABS trust may not have adequate funds to make all payments to holders of ABS when due, if ever.

**Interest Rate Risk.** 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 securities) and directly (especially in the case of instruments whose rates are adjustable, although there is typically less volatility in short term floating rate instruments). 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 prepayment schedules.

**Currency Risk.** The Clients may invest in assets denominated in non-U.S. currencies. Investing directly in non-U.S. currencies or assets that trade in, or receive revenues in, non-U.S. currencies will be subject to currency risk. Foreign currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by supply and demand in the foreign exchange markets, the relative merits of investments in different countries, actual or perceived changes in interest rates, and other complex factors. Currency exchange rates also can be affected unpredictably by intervention (or the failure to intervene) by U.S. or non-U.S. governments or central banks, currency controls, or political developments. Interventions are generally intended to manipulate exchange rates. Currencies may also be affected by the imposition of exchange controls and other policies intended to affect relative exchange rates.

Currencies other than the U.S. dollar in which the Clients' assets are denominated may be devalued against the U.S. dollar, resulting in a loss to the Clients. The Clients may attempt to hedge such risks by selling or buying currencies in the forward market, selling or buying currency futures contracts, options, or other assets thereon, borrowing funds denominated in particular currencies, or any combination thereof, depending on the availability of liquidity in the hedging instruments and their relative costs. There can be no assurance that such strategies will be implemented or, if implemented, will be effective.

**Liquidity Risk.** All or a substantial portion of the Clients' assets may from time to time be invested in securities and other financial instruments or obligations for which no market exists and/or which are restricted as to their transferability under federal or state securities laws. The sale of any such investments may be subject to delays and additional costs and may be possible only at substantial discounts. Due to the lack of a listing or active market for these investments, they may be particularly difficult to value. This may affect significantly the determination of unrealized gains and losses of the Clients.

**Short Sales.** The Clients may engage in the short sale of securities. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent the decline exceeds the transaction costs and the costs of borrowing the securities. Since the borrowed securities must later be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. An unanticipated tender offer for an issuer could also cause a sudden increase in the price of the securities sold short. Also, a short seller may be prematurely forced out of a position due to an inability to maintain a loan of the stock that is borrowed to establish the short.

**Derivative Instruments.** The Clients may invest in derivative instruments. Generally, derivatives can be characterized as financial instruments the performance of which is derived in part from the performance of an underlying asset or assets. Derivatives, which include swaps, options, futures contracts, options on futures and forward contracts, may be used for a variety of reasons, including the enhancement of return, hedging certain market risks, providing leverage, or as a substitute for purchasing or selling particular securities outright. Derivatives may offer a less expensive, quicker or more specifically focused way for the Clients to invest than "traditional" securities would offer.

Derivatives can be volatile and involve various types and degrees of risk, depending upon the characteristics of the particular derivative and the portfolio as a whole. Derivatives permit the Clients to increase or decrease the level of risk, or change the character of the risk, to which its portfolio is exposed in much the same way as the Clients can increase or decrease the level of risk, or change the character of the risk, of its portfolio by making investments in specific securities. Other risks presented by derivative instruments include imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party, or "counterparty," to a derivative transaction, and the illiquidity of derivative instruments themselves. Additionally, the ability to use successfully derivative instruments may be more

dependent on the Clients' ability to predict pertinent market movements than other investments. As a consequence, the use of derivative instruments may result in greater losses to the Clients than would be the case if they were not used, may require the Clients to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Clients can realize on an investment, or may cause the Clients to hold a security that it might otherwise sell. Additionally, amounts paid by the Clients as premiums and cash or other assets held in margin accounts with respect to derivative instruments are not otherwise available to the Clients for investment purposes.

Investments in derivative instruments may be for both hedging and non-hedging purposes (that is, to seek to increase total return), although suitable derivative instruments may not always be available to the Clients for these purposes. Losses from investments in derivative instruments can result from a lack of correlation between changes in the value of derivative instruments and the portfolio assets (if any) being hedged, the potential illiquidity of the markets for derivative instruments, the failure of the counterparty to perform its contractual obligations, or the risks arising from margin requirements and related leverage factors associated with such transactions. The use of these management techniques also involves the risk of loss if the Investment Adviser is incorrect in its expectation of the timing or level of fluctuations in securities prices, interest rates or currency prices. Investments in derivative instruments may be harder to value, subject to greater volatility and more likely subject to changes in tax treatment than other investments. For these reasons, the Investment Adviser's attempts to hedge portfolio risks through the use of derivative instruments may not be successful, and the Investment Adviser may choose not to hedge certain portfolio risks. Investing for non-hedging purposes is considered a speculative practice and presents even greater risk of loss.

### C. Risks Associated With Particular Types of Securities.

The value and performance of structured finance securities depend upon the actions of numerous transaction parties and the legal structure for the transaction. ABS are typically created by the sale of assets or collateral to a conduit, which becomes the legal issuer of the ABS. The securitization conduit or issuer is generally a bankruptcy-remote vehicle such as a trust or other special-purpose entity. Interests in, or other securities issued by, the trust or special-purpose entity, that give the holder thereof the right to certain cash flows arising from the underlying assets, are then sold to investors through an investment bank or other securities underwriter in a publicly registered issuance or private placement. Often ABS issuances are structured to reallocate the risks entailed in the underlying collateral (particularly credit risk) into security tranches that match the desires of investors. For example, senior subordinated security structures give holders of senior tranches greater credit risk protection (albeit at lower yields) than holders of subordinated tranches. The subordinated tranches must absorb credit losses on the collateral before losses can be charged to the senior tranches.

Thus, structured finance securities are subject to risks associated with their structure and execution, including the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the return to investors in such structured finance securities, whether the collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the structured finance instrument) any remaining balance in the

accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors in such structured finance securities. In addition, concentrations of structured finance securities of a particular type, as well as concentrations of structured finance securities issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject the structured finance securities to additional risk.

**ABS Regulatory Risk.** ABS backed by consumer receivables such as home mortgages, student loans, automobile loans and leases and credit card receivables are subject to risks related to changes in various federal and state laws and regulations aimed at protecting consumers. The United States Congress and the individual states could further regulate the consumer credit industry in ways that make it more difficult for the servicer to collect payments on the receivables, resulting in reduced collections. Such laws and regulations may, among other things, regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of certain provisions of these laws and regulations may limit the servicer's ability to collect all or part of the principal of or interest on such loans, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could result also in cash flow delays and losses on the related issuance of ABS.

Changes to federal or state bankruptcy or debtor relief laws may impede collection efforts or alter timing and amount of collections, which may result in acceleration of or reduction in payment on the ABS. If an obligor sought protection under federal or state bankruptcy or debtor relief laws, a court could reduce or discharge completely the obligor's obligations to repay amounts due on its receivable. As a result, that receivable would be written off as uncollectible. The ABS could suffer a loss if the related credit enhancement is insufficient to protect against such exposure.

**Subordinate Securities.** The Clients may invest in structured finance securities, or synthetic assets referencing structured finance securities that are subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, many of the related transactions have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets. In certain circumstances, payments of interest may be reduced or eliminated for one or more payment dates. Additionally, as a result of cash flow being diverted to payments of principal of more senior classes, the average life of such securities may lengthen. Subordinate structured finance securities generally do not have the right to call a default or vote on remedies following a default unless more senior securities have been paid in full. As a result, a shortfall in payments to subordinate investors in structured finance securities will generally not result in a default being declared on the transaction nor in an acceleration or restructuring of the obligations thereunder. Furthermore, because subordinate structured finance securities may represent a relatively small percentage of the size of an asset pool being securitized, the impact of a relatively small loss on the overall asset pool may be substantial on the holders of such subordinate security.

**Risk of Servicer or Depositor Default.** ABS transactions generally include a servicer (which may be the originator of the collateral or an affiliate thereof) that is responsible for collecting the cash flows generated by the securitized assets—principal, interest and fees net of losses and any servicing costs as well as other expenses—and for distributing such funds to the investors in accordance with the terms of the securities. The servicer processes the payments and administers the assets in the pool. A servicer or other transaction party, such as a trustee, may default on its contractual obligations resulting in additional costs, such as increased servicing fees by a substitute servicer or a diminution in servicing performance, including higher delinquencies and defaults, any of which may have an adverse effect on the ABS.

In ABS transactions, the issuing entity often has the right under certain circumstances to require the depositor to repurchase collateral or provide the issuing entity with a substitute for ABS collateral. This right usually arises if a breach of the representations, warranties or covenants of the depositor has a material adverse effect (individually or in the aggregate) on the underlying collateral and if the breach is not cured or the issuing entity is not reimbursed within the applicable cure period. If the depositor does not have the financial resources to make a purchase or substitution, the ABS will bear any resulting loss from the affected underlying collateral.

**Fluctuations in Credit-Ratings.** A credit-rating agency will analyze the policies and operations of the originator and servicer, as well as the structure, underlying pool of assets, expected cash flows, credit enhancement and other attributes of the securities. The initial rating of an ABS security only addresses the likelihood of the payment of interest when due and the ultimate payment of principal by its legal maturity date. The ratings do not address the likelihood of the payment of principal on ABS on or before expected final payment dates nor do the ratings guarantee that ABS will never suffer losses or have a delay in payment. The ratings of ABS may be lowered or withdrawn entirely at any time by the applicable rating agency without notice of such change in rating. The market value of ABS could decrease if the ratings are lowered or withdrawn.

**Prepayment Risk.** Prepayment risk arises from prepayments, repurchases or early termination of an ABS trust. As a result, investors may not be able to reinvest the principal paid to them earlier than they expected at a rate of return that is equal to or greater than the rate of return on the ABS. Prepayments on the receivables by the related obligors and repurchase of the receivables by the depositor or the originator will shorten the life of the ABS to an extent that cannot be fully predicted. Further, the receivables included in the trust may be prepaid, in full or in part, voluntarily or as a result of defaults or for other reasons, such as a call-right. In most ABS transactions, the ABS trust may be terminated by a transaction party if the balance of the outstanding collateral remaining in the ABS trust is significantly reduced. The rate of prepayments on the receivables may be influenced by a variety of economic, social and other factors in addition to those described above.

**Effects of Credit Enhancements.** ABS often use various forms of credit enhancements to transform the risk return profile of the underlying collateral and to attempt to minimize the exposure of ABS to credit losses on the underlying collateral, including over-collateralization, senior-subordinate structures, reserve accounts and third-party credit enhancements. The rating of a third-party credit enhancement provider may affect the ratings of the ABS. If an ABS trust enters into any third-party credit enhancement arrangement, the rating agencies that rate the

trust's ABS will consider the provisions of the arrangement and the rating of any third-party credit enhancement provider. If a rating agency downgrades the debt rating of any third-party credit enhancement provider, it is also likely to downgrade the rating of the ABS. Any downgrade in the rating of the ABS could have severe adverse consequences on their liquidity or market value. There is no assurance that the types of credit enhancement related to ABS will be sufficient to cover all losses.

**Risk of Bankruptcy Proceedings.** If the originator, the depositor or the servicer becomes subject to bankruptcy or insolvency proceedings, there could be losses or delays in the payments on the ABS. An ABS transaction has a legal structure designed to minimize the risks associated with a bankruptcy or insolvency proceeding but no assurances can be given that a court or regulator will respect the legal structure of the transaction in every instance. Holders of ABS are subject to the risk that a court or regulator in such proceeding may prevent payments on the underlying collateral from being distributed to the holders of the ABS and liquidate the underlying collateral in satisfaction of creditors' claims.

**Multiplicity of Roles.** Holders of ABS should recognize that the multiplicity of roles that may be played by a single company - within a single securitization or across a number of them - means that credit and operational risk can accumulate into significant concentrations with respect to one or a small number of companies. For example, an originator of the receivables (or an affiliated company) may also serve as servicer, administrator of the securities, underwriter, provider of liquidity and credit enhancer.

**Specific Risks Associated with Automobile-Related ABS.** In addition to the risks related to all types of ABS set forth above, ABS backed by automobile loans and leases and dealer floorplan loans are susceptible to additional risks. Adverse events with respect to an automobile finance company or its affiliates may affect the timing of payments on the ABS or have other adverse effects on the ABS. Such events with respect to an automobile finance company, its affiliates or third-party providers to whom an automobile finance company outsources its activities may result in servicing disruptions or reduce the market value of the ABS. The inability of an automobile finance company to repurchase receivables that do not comply with representations and warranties made by the automobile manufacturer, the impairment of the depositor's security interest in individual vehicles, the reduction in the residual value of leased vehicles and the inability of dealers to generate sufficient cash flow to repay dealer floorplans may reduce amounts available to distribute to holders of ABS.

**Specific Risks Associated with Credit Card ABS.** In addition to the risks related to all types of ABS set forth above, ABS backed by credit card receivables are susceptible to certain additional risks. Social, economic and geographic factors can affect credit card payments and may cause a delay in or default on payments to the ABS. Changes in credit card use, payment patterns and the rate of defaults by cardholders may result from a variety of social, economic and geographic factors. Social factors include changes in consumer confidence levels and attitudes toward incurring debt, the public's perception of the use of credit cards and changing attitudes about incurring debt, and the stigma of personal bankruptcy. Economic factors include the rates of inflation, the unemployment rates, and the relative interest rates offered for various types of loans. The Investment Adviser cannot predict how any of these or other factors will affect repayment patterns or credit card use and, consequently, the timing and amount of payments on



the ABS. Any reductions in the amount or timing of interest or principal payments will reduce the amount available for distribution on the ABS.

Credit card ABS trusts are structured as master trusts that have issued other series of ABS and are expected to issue additional series from time to time. All such ABS are payable from the receivables in the trust. The ABS trust may issue additional series with terms that are different from the series of ABS held by the Clients without notice and without prior review or consent. Before a trust can issue a new series, each rating agency that has rated an outstanding series must confirm in writing that the issuance of the new series will not result in a reduction or withdrawal of its earlier rating. Nevertheless, the terms of a new series could affect the timing and amounts of payments on any other outstanding series. In addition, the owners of the ABS of any new series will have voting rights that will reduce the percentage interest represented by an earlier series. Such voting rights may relate to the ability to approve waivers and give consents. The actions which may be affected include directing the appointment of a successor servicer following a servicer default, amending the pooling and servicing agreement and directing a reassignment of the entire portfolio of accounts.

**Specific Risks Related to Student Loan ABS.** In addition to the risks related to all types of ABS set forth above, ABS backed by student loan receivables are susceptible to certain additional risks.

ABS backed by student loans are highly susceptible to prepayment risk and extension risk due to actions taken by individual borrowers and other variables beyond the issuer's control. A borrower may prepay a student loan in whole or in part at any time. The rate of prepayments on the student loans may be influenced by a variety of economic, social, competitive and other factors, including changes in interest rates, the availability of alternative financings and the general economy. Consequently, the length of time that the ABS is outstanding and accruing interest may be shorter than expected. On the other hand, student loans may be extended as a result of grace periods, deferment periods and, under some circumstances, forbearance periods. This may lengthen the remaining term of the student loans and delay principal payments to ABS holders. In addition, the amount available for distribution will be reduced if borrowers fail to pay timely the principal and interest due on the trust's student loans.

ABS backed by private credit student loans receivables may have a greater risk of default. Private credit student loans are made to students who may have higher debt burdens than student loan borrowers as a whole. Borrowers of private credit student loans typically have already borrowed up to the maximum annual or aggregate limits of federally-guaranteed student loans. In addition, the private credit student loans are not secured by any collateral of the borrowers and are not insured by any governmental agency. Consequently, if a borrower defaults on a private credit student loan, investors in the ABS will bear the risk of loss to the extent that the reserve account or other specified credit enhancement for the ABS is insufficient or unavailable to cover that default.

Even if a student loan is guaranteed, there is a risk of default for private guarantors or insurers of student loans. If a private guarantor or insurer defaults on its guarantee or surety obligations, holders of ABS will rely solely on payments from the related borrower for payments on the related private guaranteed loan. In these circumstances, ABS investors will bear the risk of loss

resulting from the failure of any borrower of a private guaranteed or insured student loan to the extent this loss is not covered by the limited credit enhancement provided in the financing structure for the ABS.

**Specific Risks Associated with Residential MBS.** In addition to the risks related to all types of ABS set forth above, RMBS are susceptible to certain additional risks. Mortgage loans underlying certain RMBS may be originated according to underwriting guidelines that are not as strict as Fannie Mae or Freddie Mac guidelines and may be likely to experience rates of delinquency, foreclosure and bankruptcy that are higher, or substantially higher, than those experienced by mortgage loans underwritten in accordance with higher standards. These types of mortgage loans are referred to as “subprime,” “non-prime” or “non-conforming” mortgage loans. Whereas “prime” loans are typically made to borrowers who have a strong credit history and can demonstrate a capacity to repay their loans, subprime loans are typically made to borrowers who are perceived as deficient in either or both of these respects. The borrowers may have imperfect credit histories, ranging from minor delinquencies to bankruptcy, or relatively high ratios of monthly mortgage payments to income or relatively high ratios of total monthly credit payments to income. RMBS collateralized by subprime mortgage loans may consequently carry a higher risk of loss.

Rising unemployment, higher interest rates, or a decline in housing prices generally or in certain regions of the United States may have a greater effect on the delinquency, foreclosure, bankruptcy and loss experience of subprime mortgage loans and other mortgage loans of relatively low credit quality than on mortgage loans originated under stricter guidelines. The values of the mortgaged properties may not remain at levels in effect on the dates of origination of the related mortgage loans. These risks are magnified with respect to adjustable payment mortgage loans, interest-only mortgage loans, loans with balloon payments and loans which provide for negative amortization.

Various factors in the process of originating residential mortgage loans may have the effect of increasing delinquencies and defaults on the mortgage loans. Although the aspects of the mortgage loan origination process described below may be indicative of the performance of the mortgage loans, information regarding these factors may not be available at the time the RMBS is purchased. These factors may include any or all of the following:

- *Appraisal quality.* Inaccurate or inflated appraisals may result in an increase in the number of mortgage loans suffering a loss and the severity of losses on the related mortgage loans.
- *Stated income underwriting guidelines.* Most underwriting guidelines applied in the origination of mortgage loans have several different levels of documentation requirements applicable to prospective borrowers. However, “stated income” programs permit an applicant to qualify for a mortgage loan based upon monthly income as stated on the mortgage loan application, if the applicant meets certain criteria. Typically no verification of monthly income is required under stated income programs, which increases the risk that these borrowers have overstated their income and may not have sufficient income to make their monthly mortgage loan payments.

- *Underwriting guideline exceptions.* Although mortgage originators generally underwrite mortgage loans in accordance with their pre-determined loan underwriting guidelines, from time to time and in the ordinary course of business, originators will make exceptions to these guidelines. Mortgage loans originated with exceptions may result in a higher number of delinquencies and loss severities than loans originated in strict compliance with the designated underwriting guidelines.
- *Non-owner occupied properties.* Mortgage loans secured by properties acquired by investors for the purposes of rental income or capital appreciation, or properties acquired as second homes, tend to have higher severities of default than properties that are regularly occupied by the related borrowers. In a default, real property investors who do not reside in the mortgaged property may be more likely to abandon the related mortgaged property, increasing the severity of the default.
- *Fraud.* Fraud committed in the origination process may increase delinquencies and defaults on the mortgage loans. For example, a borrower may present fraudulent documentation to a lender during the mortgage loan underwriting process, which may enable the borrower to qualify for a higher balance or lower interest rate mortgage loan than the borrower would otherwise qualify for. To the extent that residential mortgage loans were originated electronically over the Internet, these originations are more likely to be fraudulent.
- *Self-employed or first time borrowers.* Self-employed borrowers may be more likely to default on their mortgage loans than salaried or commissioned borrowers and generally have less predictable income. First time home buyers are often younger, have shorter credit histories, are more highly leveraged and have less experience with undertaking mortgage debt and maintaining a residential property than other borrowers. The presence of such loans in the mortgage pool may increase the number of defaults on the mortgage loans.
- *Adjustable Payment Mortgage Loan Products.* A trust may include adjustable rate, interest-only or negative amortization mortgage loans, each of which present elevated default and prepayment risks. The primary attraction to borrowers of such mortgage loan products is that initial monthly mortgage loan payments can be significantly lower than fixed rate or level pay mortgage loans under which the borrower pays both principal and interest at an interest rate fixed for the life of the mortgage loan. As a result, many borrowers are able to incur substantially greater mortgage debt using one of these adjustable payment mortgage loan products than if they used a standard amortizing fixed rate mortgage loan. Borrowers with adjustable payment mortgage loans will likely be exposed to increased monthly payments (1) when the mortgage interest rate adjusts upward from a low introductory rate to the rate computed in accordance with the applicable index and margin, (2) if interest rates rise significantly, (3) in the case of interest-only mortgage loans, from the large

increases in monthly payments when the interest-only terms expire and the monthly payments on these loans are recalculated to amortize the outstanding principal balance over the remaining term, or (4) in the case of loans with negative amortization features, from the large increases in monthly payments when the payments are recalculated to amortize the outstanding principal balance.

The residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions that may adversely affect the yield on the related RMBS. In addition, housing prices and appraisal values in most states have declined substantially or stopped appreciating. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on residential mortgage loans generally, particularly with respect to second homes and investor properties and with respect to any residential mortgage loans whose aggregate loan amounts (including any subordinate liens) are close to or greater than the related property values.

Substantial delays could be encountered in connection with the liquidation of delinquent mortgage loans. Further, reimbursement of advances made by the servicers and liquidation expenses such as legal fees, real estate taxes and maintenance and preservation expenses may reduce the portion of liquidation proceeds payable to holders of RMBS. If a mortgaged property fails to provide adequate security for the related mortgage loan, the certificate holder could incur a loss on its investment if applicable credit enhancement is insufficient to cover the loss.

It is possible that servicing of mortgage loans may be transferred in accordance with the provisions of the transaction documents. All transfers of servicing involve some risk of disruption in collections due to data input errors, misapplied or misdirected payments, system incompatibilities and other reasons. As a result, the mortgage loans may experience increased delinquencies and defaults, at least for a period of time, until all of the borrowers are informed of the transfer and the related servicing mortgage files and records and all the other relevant data has been obtained by the new servicer. There can be no assurance as to the extent or duration of any disruptions associated with the transfer of servicing or as to the resulting effects on the yield on the related RMBS.

Prepayments on the underlying mortgage loans in an issue of RMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS. RMBS are particularly susceptible to prepayment risks, as they generally do not contain prepayment penalties and a reduction in interest rates will increase the prepayments on the RMBS, resulting in a reduction in yield to maturity for holders of such securities.

The mortgage lending and servicing business involves the collection of numerous accounts and compliance with various federal, state and local laws that regulate consumer lending. Lenders and servicers may be subject from time to time to various types of claims, legal actions (including class action lawsuits), investigations, subpoenas and inquiries in the course of their business. It is impossible to predict the outcome of any particular actions, investigations or inquiries or the resulting legal and financial liability. In addition, recent adverse economic conditions in the residential housing market have resulted in serious financial difficulties for, and in some cases, bankruptcy of, numerous mortgage originators and servicers, particularly those involved with subprime loans. If any legal or governmental proceeding were determined adversely to an originator or servicer of mortgage loans included in a trust and were to have a material adverse effect on its financial condition, or if the servicer or originator experiences serious financial difficulties, the ability of the affected servicer to service the mortgage loans in accordance with the applicable servicing agreement, or the ability of the affected originator to fulfill its obligation to repurchase or substitute for defective mortgage loans, could be impaired.

Legislative and regulatory initiatives by federal, state or local legislative bodies or administrative agencies, if enacted or adopted, could delay foreclosure, provide new defenses to foreclosure or otherwise impair the ability of a servicer to foreclose on a defaulted loan. Various jurisdictions have considered or are currently considering such actions, and the Investment Adviser cannot predict the nature or extent of limitations on foreclosure that may be enacted. Any such governmental actions that interfere with the foreclosure process could affect RMBS yields. In addition, proposed federal legislation would, if enacted, permit borrowers in bankruptcy to restructure mortgage loans secured by their primary residences. Bankruptcy courts could, if this legislation is enacted, reduce the amount of the principal balance of a mortgage loan that is secured by a lien on the mortgaged property, reduce the interest rate, extend the term to maturity or otherwise modify the terms of a bankrupt borrower's mortgage loan which could result in losses on the RMBS.

**Specific Risks Associated with Commercial MBS.** In addition to the risks related to all types of ABS set forth above, CMBS are susceptible to certain additional risks. Repayment of a commercial or multifamily mortgage loan depends on the performance and value of the underlying real property, which may decline over time, and the related borrower's ability to refinance the property, of which there is no assurance. Mortgage loans underlying CMBS generally are nonrecourse loans. This means that, in the event of a default, recourse will be limited to the related real property or properties securing the defaulted mortgage loan. In the event that the income generated by a real property was to decline as a result of the poor economic performance of that real property with the result that the real property is not able to support debt service payments on the related mortgage loan, neither the related borrower nor any other person would be obligated to remedy the situation by making payments out of their own funds. In such a situation, the borrower could choose instead to surrender the related mortgaged property to the lender or let it be foreclosed upon.

Full and timely payment on each mortgage loan underlying the CMBS will depend on one or more of the following factors: (i) the sufficiency of the net operating income of the applicable real property; (ii) the market value of the applicable real property at or prior to maturity; and (iii) the ability of the related borrower to refinance or sell the applicable real property. In general, the value of a multifamily or commercial property will depend on its ability to generate net operating

income. The ability of an owner to finance a multifamily or commercial property will depend, in large part, on the property's value and ability to generate net operating income.

The following factors, among others, will affect the ability of a multifamily or commercial property to generate net operating income and, accordingly, its value: (i) the location, age, functionality, design and construction quality of the subject property; (ii) perceptions regarding the safety, convenience and attractiveness of the property; (iii) the characteristics of the neighborhood where the property is located; (iv) the degree to which the subject property competes with other properties in the area; (v) the proximity and attractiveness of competing properties; (vi) the existence and construction of competing properties; (vii) the adequacy of the property's management and maintenance; (viii) tenant mix and concentration; (ix) national, regional, or local economic conditions, including plant closings, industry slowdowns, and unemployment rates; (x) local real estate conditions, including an increase in or oversupply of comparable commercial or residential space; (xi) demographic factors; (xii) customer confidence, tastes and preferences; (xiii) retroactive changes in building codes and other applicable laws; (xiv) changes in governmental rules, regulations, and fiscal policies, including environmental legislation; and (xv) vulnerability to litigation by tenants and patrons.

Particular factors that may adversely affect the ability of a multifamily or commercial property to generate net operating income include the following: (i) an increase in interest rates, real estate taxes, and other operating expenses; (ii) an increase in the capital expenditures needed to maintain the property or make improvements; (iii) a decline in the financial condition of a major tenant and, in particular, a sole tenant or anchor tenant; (iv) an increase in vacancy rates; (v) a decline in rental rates as leases are renewed or replaced; (vi) natural disasters and civil disturbances such as earthquakes, hurricanes, floods, eruptions, terrorist attacks, or riots; and (vii) environmental contamination.

The volatility of net operating income generated by a multifamily or commercial property over time will be influenced by many of the foregoing factors, as well as by the following: (i) the duration of tenant leases; (ii) the creditworthiness of tenants; (iii) the rental rates at which leases are renewed or replaced; (iv) the percentage of total property expenses in relation to revenue; (v) the ratio of fixed operating expenses to those that vary with revenues; and (vi) the level of capital expenditures required to maintain the property and to maintain or replace tenants.

The effects of any of the factors described above occurring individually or in the aggregate with respect to CMBS may adversely affect the performance and value of the CMBS.

**Specific Risks Associated with Collateralized Debt Obligations.** Collateralized Debt Obligation ("CDO") securities are limited recourse obligations of the issuer thereof payable solely from the underlying securities and other assets owned by the issuer or proceeds thereof. Consequently, holders of CDO securities must rely solely on distributions on the collateral underlying such CDO securities or the proceeds thereof for payment. Such assets may consist of investment grade debt securities, high yield debt securities, loans, structured finance securities, synthetic securities, and other debt instruments. Investments in assets through the purchase of synthetic securities present risks in addition to those resulting from direct purchases of those assets because the buyer of such synthetic security usually will have a contractual relationship only with the synthetic security counterparty and not the obligor on the reference obligation of

such synthetic security. The buyer of a synthetic security will not benefit from any collateral supporting the reference obligation of such synthetic security, will not have any remedies that would normally be available to the holder of such reference obligation and will be subject to the credit risk of the synthetic security counterparty as well as the obligor on such reference obligation. High yield debt securities are generally unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The lower rating of high yield securities and below-investment grade loans reflects a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal or interest. Such investments may be speculative. As a result of increases in the default rates, there would be a decrease in the amount of credit support available for CDO securities backed by such corporate debt securities and loans since the issue date thereof. Diminished credit support as a result of increases in the default rates of and rating downgrades reported on corporate debt securities or loans could increase the likelihood that payments may not be made to holders of CDO securities that are secured by corporate debt securities and loans.

**Specific Risks of CDO Equity Securities.** The Clients may acquire equity securities issued by CDOs, or certificates issued by CDOs with equity-like features. Investments in CDO equity interests involve a high degree of risk. Such CDO equity interests held by the Clients will be fully subordinated by operation of law and pursuant to an indenture, to the CDO notes and to the payment of the fees owing by the CDO to the trustee and paying agent under the indenture, and the expenses of the CDO. Under the terms of the indenture, there will be no scheduled repayments to the CDO equity interest holders. Generally, no distributions will be made to the equity interest holders until all senior obligations have been paid in full. In addition, in case of an event of default under the indenture, as long as any notes are outstanding, certain holders of the notes, rather than the equity interest holders, will be entitled to determine the remedies to be exercised under the indenture. Remedies pursued by the holders of the notes could be adverse to the interests of the equity interest holders. Although, in connection with any CDO in which the Clients invest, the scheduled payments of principal and interest on such CDO's assets will be expected to exceed the amounts required to pay principal of, and interest due on, the notes, there can be no assurance that payments of principal of, and interest on, and other proceeds from, the CDO assets will continue to exceed required fees and expenses and payments of principal and interest on the notes.

**Specific Risks Associated with Project and Infrastructure Finance.** Project and infrastructure finance includes securities or loans from the arrangement of debt used to construct or refinance a capital intensive facility. The source of repayment is typically limited to the projected revenues from the facility rather than other current income of the borrower. Because the source of repayment is limited to a specific project or facility, any change which affects the facility itself or the facility's ability to generate revenues may significantly alter the value of the securities held by the Clients. A project may be subject to a number of technical, environmental, economic, regulatory, construction, and political risks. If any of these or other risks materializes, the ability of the financed project to maintain current payments to security holders may be impaired and consequently the securities held by Clients may lose value.

**Specific Risks Associated with Aircraft Finance, Intellectual Property Securitizations and Financial Future Flows.** Asset backed securities or debt secured by intellectual property include

securities and loans backed by pools of entertainment royalties (such as film distribution revenues, television rights fees or music publishing royalties) and pharmaceutical patents. Because the source of repayment is limited to a specific pool of rights, the ability to generate revenues associated with such rights may significantly alter the value of the securities held by the Clients.

Financial future flows include asset backed securities or debt secured by cross border wire transfers or credit card payment vouchers. Such securities are typically issued by affiliates of financial institutions with recourse limited to specified collateral. Most securities in this asset class are sponsored by emerging markets financial institutions and as such are subject to all of the risks described below under “Foreign (Non U.S.) Investing.” In addition, emerging markets financial institutions are subject to local banking and other regulations. Such regulations are generally intended to limit exposure to risk but may have the effect of increasing the financial institution’s cost of doing business or limiting its activities. A breach of regulatory guidelines could expose it to potential liabilities or sanctions which could impair an issuer’s ability to repay debt. Because the source of repayment is limited to proceeds of financial transactions, any impairment of the sponsors franchise may significantly alter the value of the securities held by the Clients.

Aircraft and aircraft lease finance securitizations (including portfolio securitizations, Equipment Trust Certificates (“ETCs”) and Enhanced Equipment Trust Certificates (“EETCs”)) include securities or loans issued to finance the purchase of commercial aircraft. The source of repayment is usually limited to lease payments from airlines, the residual value of aircraft and, in some structures, the aircraft themselves. Because the source of repayment is limited, any change that impacts the creditworthiness of the aircraft lessors, restricts the owner of the aircraft from keeping the aircraft in service, or impacts the residual value of aircraft may significantly alter the value of the securities held by the Clients.

**Foreign (Non-U.S.) Investing.** Investments in non-U.S. instruments and depositary receipts such as ADRs and GDRs (which are receipts of foreign issuers traded on U.S. stock exchanges) present certain risks not ordinarily associated with investments in U.S. instruments. These risks include: (i) political, economic, or legal developments (including war or other instability, expropriation of assets, nationalization and confiscatory taxation); (ii) withholding taxes or other restrictions on dividends, interest payments, gross sale or disposition proceeds, or capital transactions; (iii) higher transaction costs (including higher brokerage, custodial, and settlement costs); and (iv) possible difficulty in enforcing contractual obligations or taking judicial action. Moreover, non-U.S. instruments may not be as liquid and may be more volatile than comparable domestic securities.

## **Item 9 – Disciplinary Information**

There are no legal or disciplinary events that are material to a Client's or prospective Client's evaluation of the Investment Adviser's advisory business or the integrity of the Investment Adviser's management.



## **Item 10 – Other Financial Industry Activities and Affiliations**

### **A. Broker-Dealer Registration Status.**

The Investment Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

### **B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status.**

The Investment Adviser and its management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity trading advisors or associated persons of the foregoing entities. The Investment Adviser is registered as a commodity pool operator with the Commodity Futures Trading Commission and the National Futures Association.

### **C. Material Relationships or Arrangements with Industry Participants.**

The Investment Adviser serves as the management company to several privately placed pooled investment vehicles as described above. Related persons that are under common control with the Investment Adviser serve as the general partner or management company to certain of the Funds.

### **D. Material Conflicts of Interest Relating to Other Investment Advisers.**

The Investment Adviser does not recommend or select other investment advisers for its Clients.

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

### **A. Code of Ethics.**

The Investment Adviser has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its Clients. The Code of Ethics includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other matters. All supervised persons at the Investment Adviser must acknowledge the terms of the Code of Ethics annually, or as amended.

Clients may request a copy of the Code of Ethics by contacting the Investment Adviser at the address or telephone number listed on the first page of this document.

B. Securities that the Investment Adviser or a Related Person Has a Material Financial Interest.

Cross Trades

The Investment Adviser may determine that it would be in the best interests of certain Clients to transfer a security from one Client to another (each such transfer, a "Cross Trade") for a variety of reasons, including, without limitation, tax purposes, liquidity purposes, to rebalance the portfolios of the Clients, or to reduce transaction costs that may arise in an open market transaction. If the Investment Adviser decides to engage in a Cross Trade, the Investment Adviser will determine that the trade is in the best interests of each Client involved and take steps to ensure that the transaction is consistent with the duty to obtain best execution for such Clients.

The Investment Adviser generally executes Cross Trades with the assistance of a broker-dealer who executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a Cross Trade between two Clients may occur as an "internal cross", where the Investment Adviser instructs the custodian for the Clients to book the transaction at the price determined in accordance with the Investment Adviser's valuation policy. If the Investment Adviser effects an internal cross, the Investment Adviser will not receive any fee in connection with the completion of the transaction.

Principal Transactions

To the extent that Cross Trades may be viewed as principal transactions due to the ownership interest in a Client by the Investment Adviser or its personnel, the Investment Adviser will comply with the requirements of Section 206(3) of the Advisers Act, including that any such transactions will be considered on behalf of investors in such Client and approved or disapproved by (i) an advisory board comprised of representatives of such investors or (ii) a committee consisting of one or more persons selected by the Investment Adviser (or its affiliate), and any valuation approved by such a committee will be determined by an independent third party that has appropriate experience in providing such valuations.

C. Investing in Securities that the Investment Adviser or a Related Person Recommends to Clients.

The Code of Ethics places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to the Investment Adviser on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. The Investment Adviser's employees and persons associated with the Investment

Adviser are required to follow the Investment Adviser's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of the Investment Adviser and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for the Investment Adviser's Clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of the Investment Adviser will not interfere with (i) making decisions in the best interest of advisory Clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of the Investment Adviser's Clients. In addition, the Code of Ethics requires pre-clearance of many transactions, and restricts trading in close proximity to Client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as Clients, there is a possibility that employees might benefit from market activity by a Client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between the Investment Adviser and its Clients.

#### D. Conflicts of Interest Created by Contemporaneous Trading.

Certain affiliated accounts may trade in the same securities with Client accounts on an aggregated basis when consistent with the Investment Adviser's obligation of best execution. In such circumstances, the affiliated and Client accounts will share commission costs equally and receive securities at a total average price. The Investment Adviser will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

The Investment Adviser manages investments on behalf of a number of Clients. Certain Clients have investment programs that are similar to or overlap and may, therefore, participate with each other in investments. It is the policy of the Investment Adviser to allocate investment opportunities among all Clients fairly, to the extent practical and in accordance with each Client's applicable investment strategies, over a period of time. As described above, the Investment Adviser allocates investment opportunities among the Clients equitably, consistent with its allocation policies.

## Item 12 – Brokerage Practices

The Investment Adviser is responsible for investment decisions and for the execution of its Clients' securities transactions through registered broker-dealers. The Investment Adviser has no obligation to deal with any particular broker-dealer in the execution of transactions in portfolio securities. In selecting brokers and dealers to effect portfolio transactions, the Investment Adviser considers factors such as price, the ability of brokers and dealers to effect the transaction, the brokers' and dealers' facilities, speed of execution, reliability and financial responsibility. The Investment Adviser seeks to obtain best execution for its transactions, which generally is determined by price, but may vary based on the circumstances. While the Investment Adviser generally seeks reasonably competitive broker compensation rates, its Clients do not necessarily pay the lowest commission or mark-up.

In executing portfolio transactions, the Investment Adviser seeks to obtain the best net result for its Clients. Prices paid to dealers generally include a "spread," which is the difference between the prices at which the dealer is willing to purchase or sell a specific security at the time. A Client may invest in securities traded in over-the-counter markets and will engage primarily in transactions with the dealers who make markets in such securities, unless a better price or execution could be obtained by using a broker. In addition, the Investment Adviser may effect transactions which cause a Client to pay a commission or "spread" in excess of a commission which another broker-dealer would have charged for the transaction, if the Investment Adviser determines that such commission or spread is reasonable in relation to the value of the brokerage, research, performance measurement service and other services provided by that broker-dealer and not inconsistent with applicable law, notwithstanding that the Client may not be the direct or exclusive beneficiary of such services.

### Research and Other Soft Dollar Benefits.

From time to time, the Investment Adviser may pay a broker-dealer commissions (or markups or markdowns with respect to certain types of riskless principal transaction) for effecting Client transactions in excess of that which another broker-dealer might have charged for effecting the transaction in recognition of the value of the brokerage and research services provided by the broker-dealer. The Investment Adviser will effect such transactions, and receive such brokerage and research services, only to the extent that they fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended, and subject to prevailing guidance provided by the SEC regarding Section 28(e). The Investment Adviser believes it is important to its investment decision-making processes to have access to independent research.

Also, consistent with Section 28(e), research products or services obtained with "soft dollars" generated by one or more Clients may be used by the Investment Adviser to service one or more other Clients, including Clients that may not have paid for the soft dollar benefits. The Investment Adviser does not seek to allocate soft dollar benefits to Client accounts in proportion to the soft dollar credits the Client accounts generate. Where a product or service obtained with

soft dollars provides both research and non-research assistance to the Investment Adviser (*i.e.*, a "mixed use" item), the Investment Adviser will make a good faith allocation of the cost which may be paid for with soft dollars. In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of the Investment Adviser's allocation of the costs of such benefits and services between those that primarily benefit the Investment Adviser and those that primarily benefit the Clients.

If the Investment Adviser uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, the Investment Adviser will receive a benefit because it does not have to produce or pay for such products or services. The Investment Adviser may have an incentive to select or recommend a broker-dealer based on the Investment Adviser's interest in receiving research or other products or services, rather than on its Clients' interest in receiving most favorable execution.

Broker-dealers sometimes suggest a level of business they would like to receive in return for the various products and services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocation, but can (and often does) exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. In no case will the Investment Adviser make binding commitments as to the level of brokerage commissions it will allocate to a broker-dealer, nor will it commit to pay cash if any informal targets are not met. A broker-dealer is not excluded from receiving business because it has not been identified as providing research products or services.

### **Item 13 – Review of Accounts**

#### **A. Frequency and Nature of Review of Client Accounts or Financial Plans.**

The Investment Adviser performs daily, weekly, monthly and periodic reviews of investment positions held by its Clients. Such reviews are conducted by the members of the Investment Adviser's portfolio manager, research analysts and operations personnel.

#### **B. Factors Prompting Review of Client Accounts Other than a Periodic Review.**

Significant changes in market volatility, the value of the Client's portfolio or the performance of investment positions are examples of various factors that may prompt additional review of Client accounts.

#### **C. Content and Frequency of Account Reports to Clients.**

Clients generally receive monthly performance estimates and a monthly report from the Investment Adviser documenting the performance of such Client as well as a market commentary prepared by the Investment Adviser. The Investment Adviser may upon request also

provide certain investors information on a more frequent and detailed basis in multiple formats. In addition, the Investment Adviser issues tax reports and audited financial statements to the investor concerning its respective fund investments within 120 days of the end of the Clients' fiscal year.

#### **Item 14 – Client Referrals and Other Compensation**

##### **A. Economic Benefits for Providing Services to Clients.**

The Investment Adviser does not receive economic benefits from non-Clients for providing investment advice or other advisory services.

##### **B. Compensation to Non-Supervised Persons for Client Referrals.**

Neither the Investment Adviser nor any related person compensates any person who is not a supervised person, including placement agents, for client referrals. The Investment Adviser does not currently utilize third-party placement agents. If the Investment Adviser elects to utilize such placement agents in the future, the Investment Adviser will disclose that such placement agents may receive compensation for referring investors to the Clients.

#### **Item 15 – Custody**

The Investment Adviser is deemed to have custody of Client funds and securities because it has the authority to obtain Client funds or securities, for example, by deducting advisory fees from a Client's account or otherwise withdrawing funds from a Client's account. Account statements related to the Clients are sent by qualified custodians to the Investment Adviser.

The Investment Adviser is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception", which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

#### **Item 16 – Investment Discretion**

The Investment Adviser serves as the management company with discretionary trading authority to each Fund. In addition, the Investment Adviser serves as the investment adviser with

discretionary trading authority and also provides discretionary advisory services for the Managed Accounts.

The Investment Adviser's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents. Similarly, the Investment Adviser's investment decisions and advice with respect to each Managed Account are subject to each Client's investment objectives and guidelines, as set forth in the Client's investment management agreement, as well as any written instructions provided by the Client to the Investment Adviser.

The Investment Adviser or an affiliate of the Investment Adviser entered into an investment management agreement, or similar agreement, with each Fund or beneficial owner of each Managed Account, pursuant to which the Investment Adviser or an affiliate of the Investment Adviser was granted discretionary trading authority.

### **Item 17 – Voting Client Securities**

In voting securities by proxy for its Clients, the Investment Adviser is guided by general fiduciary principles. The Investment Adviser shall vote in a manner that the Investment Adviser determines, in its discretion, is in the best interest of the Clients and consistent with the Investment Adviser's duties of care and loyalty to its Clients. The Investment Adviser will generally vote for proposals that maximize the value of the security. The factors considered by the Investment Adviser will vary from security to security and from Client to Client, and may include market information, liquidity, the debtor's financial situation, the industry, and the Client's investment guidelines. The Investment Adviser will also follow any voting guidelines that have been expressly agreed upon in the Client's advisory contract.

In compliance with Advisers Act Rule 206(4)-6, the Investment Adviser has adopted proxy voting policies and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, "Proxies") in a prudent and diligent manner that will serve the applicable Client's best interests and is in line with each Client's investment objectives.

The Investment Adviser may take into account all relevant factors, as determined by the Investment Adviser in its discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant Client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and

- industry and business practices.

In limited circumstances, the Investment Adviser may refrain from voting Proxies where the Investment Adviser believes that voting would be inappropriate, taking into consideration the cost of voting the Proxies and the anticipated benefit to its Clients. Generally, Clients may not direct the Investment Adviser's vote in a particular solicitation.

Conflicts of interest may arise between the interests of the Clients on the one hand and the Investment Adviser or its affiliates on the other hand. If the Investment Adviser determines that it may have, or is perceived to have, a conflict of interest when voting Proxies, the Investment Adviser will vote in accordance with its Proxy voting policies and procedures. Clients may obtain a copy of the Investment Adviser's Proxy voting policies and its Proxy voting record upon request.

### **Item 18 – Financial Information**

The Investment Adviser is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to Clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.