

## **IVY HILL ASSET MANAGEMENT, L.P.**

### **Form ADV Part 2A Firm Brochure**

**Updated: March 31, 2015**

**This brochure provides information about the qualifications and business practices of Ivy Hill Asset Management, L.P. (“Ivy Hill” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at 202-721-6100 or [mkrieger@aresmgmt.com](mailto:mkrieger@aresmgmt.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about Ivy Hill also is available on the SEC’s website at:  
[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)**

*Registration with the SEC as an investment adviser does not imply that Ivy Hill or any principals or employees of Ivy Hill possess a particular level of skill or training in the investment advisory or any other business.*

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## Item 2 - Material Changes

This brochure contains updated information about the Firm's business since the last annual update dated March 31, 2014; however, no material changes are included in this updated brochure.

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## Item 4 - Advisory Business

Ivy Hill is a Delaware limited partnership that was formed in November 2007. Ares Capital Corporation (“Ares Capital”) currently directly or indirectly owns 100% of Ivy Hill's equity and voting interests. Ivy Hill Asset Management GP, LLC (“Ivy Hill GP”) is the general partner of Ivy Hill, and Ares Capital is the sole member of Ivy Hill GP. Ares Capital is a closed-end, non-diversified specialty finance company that is regulated as a business development company under the Investment Company Act of 1940, as amended (the “Investment Company Act”), and is externally managed by Ares Capital Management LLC (“ACM”), a wholly owned subsidiary of Ares Management LLC (“Ares Management”). Both ACM and Ares Management are SEC-registered investment advisers and are subsidiaries of Ares Management, L.P., a publicly traded global alternative asset manager. References to Ares Management in this brochure include, as the context requires, affiliates through which Ares Management provides investment advisory services.

Ivy Hill, either directly or through one or more subsidiaries, provides the services described below to its advisory clients, which are comprised of various pooled investment vehicles, including CLOs, private investment funds and separate investment accounts for single investors (collectively, the “Funds”). In some situations, Ivy Hill may form special purpose entities to serve as investment vehicles for investors. Ivy Hill, or a subsidiary of Ivy Hill, serves as general partner, managing member, investment adviser, sub-adviser, manager and/or sub-manager of each of its clients, including separate or managed accounts.

Ivy Hill's investment advisory business is principally focused on investing in and managing middle market senior secured loans through co-mingled structured investment vehicles, including CLOs, and separately managed accounts. Ivy Hill believes that middle market loans generally, as an asset class, offer attractive returns with lower default rates, tighter covenants, higher origination standards, and more active management and sponsor involvement than broadly syndicated loans. Ivy Hill tailors its advisory services to the specific investment objectives and restrictions of each Fund. The investment objective of the Funds is generally to seek a total return while generating current income. Many Funds have investment restrictions that are particular to such Fund. Investment restrictions may include, among others, prohibitions on investing in certain types of assets (e.g., equity securities), restrictions on issuer domiciles, restrictions on price or rating of investments and limitations on the percentage a particular type of investment can comprise of a Fund's investment portfolio.

Investors and prospective investors in each Fund should refer to any applicable confidential private placement memorandum, offering memorandum, indenture, limited partnership agreement, limited liability company agreement, investment management agreement and other governing documents for each such Fund (the “Governing Documents”) for more detailed information on the investment objectives and investment restrictions with respect to such Fund. Prior performance, while illustrative of Ivy Hill's

investment philosophy and experience, is not necessarily indicative of future performance and there is no assurance that any Fund's investment objectives will be achieved.

In accordance with common industry practice, Ivy Hill or a Fund general partner, managing member or manager may enter into "side letters" or similar agreements with certain investors pursuant to which Ivy Hill or the general partner, managing member or manager grants the investor specific rights, benefits, or privileges that are not made available to investors generally.

Ivy Hill does not participate in any wrap fee programs.

Ivy Hill manages all assets on a discretionary basis in accordance with the terms and conditions of each Fund's Governing Documents. As of December 31, 2014, the amount of regulatory assets Ivy Hill manages on a discretionary basis was approximately \$2,571,700,000 ("RAUM"). RAUM is calculated by aggregating the gross value of all Funds and other securities accounts (including proprietary accounts) for which Ivy Hill provides continuous and regular supervisory or management services. In instances where Ivy Hill only provides such services for a portion of a Fund or account, only the value of the portion of the Fund or the account for which Ivy Hill performs continuous and regular supervisory or management services is included in Ivy Hill's RAUM. Ivy Hill does not manage any client assets on a non-discretionary basis.

## **Item 5 - Fees and Compensation**

### ***Compensation and Fee Schedules***

Investors in each Fund and prospective investors in each Fund should review the Governing Documents of a Fund for more detailed information on fees and compensation payable with respect thereto, including advisory fees charged by Ivy Hill. All clients of Ivy Hill are "qualified purchasers" as defined in Section 2(a)(51) of the Investment Company Act.

In addition to managing the Funds, from time to time, Ivy Hill invests in debt and/or equity securities issued by certain of the Funds, and Ares Capital has also invested, and may in the future invest, in securities issued by one or more of the Funds. In addition, persons affiliated with ACM and entities managed by affiliates of ACM, including entities managed by Ares Management, have invested, and such entities and/or entities managed by ACM may in the future invest, in securities issued by one or more of the Funds. While Ivy Hill endeavors at all times to act in the best interests of the Funds, investors should be aware that Ivy Hill's receipt of compensation from each of the Funds and the investment by Ivy Hill, Ares Capital or entities managed by affiliates of ACM, including entities managed by Ares Management, in a Fund may create potential conflicts of interest.

### ***Deduction of Fees; Timing of Payments; Termination***

For certain of the Funds, Ivy Hill is authorized under the Fund's Governing Documents to charge and deduct advisory fees directly, or indirectly through the applicable Fund's

trustee, from the assets of the Fund at the times and in the amounts set forth in the Governing Documents.

Base advisory fees for many of Ivy Hill's clients, including many of the Funds, are payable in arrears, generally on a quarterly or semi-annual basis. Since such advisory fees are payable in arrears, they are not paid until after services have been rendered. Please refer to the Governing Documents of a Fund for more detailed information on the timing of advisory fee payments.

Clients have the right to terminate the advisory or investment management agreements in accordance with the terms of such agreements.

### ***Other Fees and Expenses***

In addition to the fees payable to Ivy Hill, a Fund may be responsible for reimbursing Ivy Hill for certain costs and expenses incurred on its behalf, including (but not limited to):

- any sales or other taxes, fees or government charges that may be assessed against the Fund;
- commissions, brokerage fees and similar charges incurred in connection with the purchase or sale of investments (including whether or not any such purchase or sale is consummated);
- costs and expenses incurred in investigating, developing, negotiating, structuring, settling, monitoring and holding portfolio investments (whether or not consummated), including travel, legal, tax and accounting expenses therewith;
- rating agency fees;
- market data costs; research-related expenses, including, without limitation, news and quotation equipment, software and services;
- the costs and expenses (including travel-related expenses) of holding meetings or conferences with a Fund's investors;
- costs of any investigation, administrative proceeding or regulatory matter, litigation and threatened litigation involving the Fund;
- indemnification obligations and expenses;
- expenses attributable to normal and extraordinary investment banking, commercial banking, accounting, auditing, appraisal, tax advisory, tax preparation, legal, external consulting, custodial and registration services provided to the Fund (including allocated costs of such services that were performed by an Ivy Hill affiliate, such as an in-house lawyer, accountant, tax advisor or other professional of Ivy Hill or Ares Management, pursuant to Ivy Hill's Administrative Agreement with an affiliate of Ares Management);
- fees, costs and expenses, including premiums related to risk management services and insurance;
- the costs of dissolving a Fund or other investment vehicle and liquidating its assets;
- the costs and expenses for tax and audit services to the Fund; fees, costs and expenses related to the appraisal and valuation of the Fund's and its subsidiaries' assets;

- organizational expenses, including costs and expenses pertaining to the offering and sale of interests in a Fund, related legal and other organizational payments (including the allocated costs of such services that were performed by an Ares affiliate, such as an in-house lawyer, accountant, tax professional or other consultant, but which could have otherwise been provided by a third-party service provider) and travel expenses (including costs of private jet travel);
- services provided by any third-party service provider (such as an administrator, depositary, custodian, tax and compliance professionals, independent directors or other service providers) to the Fund, the Manager, the General Partner or their affiliates;
- certain administrative expenses; and
- fees, costs and expenses associated with compliance by the Fund, the General Partner, the Manager, or their respective affiliates that are involved in the management of the Fund with all applicable laws, rules and regulations, including certain expenses related to regulatory filings.

Please refer to the Governing Documents for more detailed information on the expenses payable by the Funds.

Ivy Hill may from time to time incur fees, costs and expenses on behalf of more than one Fund. To the extent such fees, costs and expenses are incurred for the account or benefit of more than one Fund, each such Fund will typically bear an allocable portion of any such fees, costs and expenses in proportion to the size of its investment in the activity or entity to which such expense relates (subject to the terms of each Fund's Governing Documents) or in such other manner as Ivy Hill considers fair and equitable under the circumstances. Ivy Hill endeavors to allocate such fees, costs and expenses on a fair and equitable basis.

See discussion below in Item 12 - "Brokerage Practices" for a description of the factors Ivy Hill considers in selecting or recommending broker-dealers and determining the reasonableness of their compensation.

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

### ***Performance-Based Fees***

For some of the Funds, Ivy Hill may be entitled to an incentive fee as part of its compensation for management services. See discussion above in Item 5 under the section "Compensation and Fee Schedules."

Performance-based fee and allocation arrangements received by Ivy Hill or its related persons may create incentives for Ivy Hill to recommend investments that may be riskier or more speculative than those that would be recommended under different fee arrangements. Please refer to the Governing Documents of each Fund for additional information on the performance-based fee arrangements of each Fund.

### ***Side-by-Side Management***

Ivy Hill and related parties of Ivy Hill, including affiliates of ACM, may provide concurrent advisory services to clients that are not charged a performance-based fee by Ivy Hill or its related persons and clients that are charged a performance-based fee. The potential for Ivy Hill and its related persons to receive greater fees from performance-based accounts creates potential conflicts of interest with respect to the allocation of investment opportunities, as Ivy Hill may have incentives to direct the best investment ideas to, or to allocate investments in favor of, Funds or investment accounts that pay performance fees. To mitigate potential conflicts of interest, allocations of investment opportunities among clients are determined by Ivy Hill in accordance with its investment allocation policy and consistent with its fiduciary duties and corresponding investment mandates. It is Ivy Hill's policy that all investment opportunities will, to the extent practicable, be allocated among its clients on a basis that over a period of time is fair and equitable to each client relative to other clients, taking into account relevant facts and circumstances, including, but not limited to: (i) differences with respect to available capital, size, and remaining life of a fund; (ii) differences in investment objectives or strategies; (iii) differences in risk profile at the time an opportunity becomes available; (iv) the potential transaction and other costs of allocating an opportunity among various Funds; (v) potential conflicts of interest, including whether a client has an existing investment in the issuer in question; (vi) the nature of the security or the transaction including minimum investment amounts and the source of the opportunity; (vii) current and anticipated market conditions; and (viii) differences in particular portfolio profile covenants or other contractual requirements, including requirements set forth in the debt agreements of funds utilizing leverage.

The Co-Presidents of Ivy Hill are generally responsible for transaction allocations within Ivy Hill. Allocations of investment opportunities are reviewed periodically to assess the effectiveness of the procedures. Ivy Hill and its affiliates may co-invest with certain of the Funds, as described in the Funds' Governing Documents.

## **Item 7 - Types of Clients**

### ***Types of Clients***

Ivy Hill provides investment advice to the Funds. Investors in the Funds are comprised primarily of banks, institutional investors, privately managed funds, insurance companies, government and private pension funds, sovereign wealth funds and a limited number of high net worth individuals. Ivy Hill or its related persons may establish certain Funds ("Feeder Funds") to address particular tax or regulatory requirements. Each Feeder Fund, if formed, would be a limited partner of or investor in a Fund and interests in such Feeder Fund would be held by the investors who elect to participate in the Fund through such Feeder Fund. Prospective investors should refer to the Governing Documents of the applicable Fund for complete details on any Feeder Fund established with respect to such Fund.

### ***Minimum Investment Requirements***

The minimum investment in each of the Funds is stated in its Governing Documents and ranges from \$100,000 to \$1,000,000. In certain instances, Ivy Hill may waive this minimum in its discretion.

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

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

Ivy Hill's investment philosophy and portfolio construction generally involve deliberate company-specific research and analysis and an assessment of the overall macroeconomic environment and financial markets.

Ivy Hill invests in and manages primarily middle market senior secured loans through structured vehicles. Its objective is to construct portfolios that balance the benefits of diversification, credit quality, defensive industry allocations, and efficient and flexible portfolio financing.

Ivy Hill's investment process emphasizes due diligence on companies, with a focus on principal protection, relative value and adherence to portfolio guidelines. The strategy employed by Ivy Hill generally emphasizes, among other things, the importance of the following:

- A comprehensive analysis of issuer creditworthiness, including a quantitative and qualitative assessment of the issuer's business;
- An evaluation of management;
- An analysis of business strategy and industry trends;
- An in-depth examination of capital structure, financial results and projections;
- Control of investment risk; protection of principal;
- Long-term value creation; avoidance of short-term trading mentality;
- Relative value analysis;
- Broad access to deal flow;
- Active portfolio monitoring;
- Investment memoranda and periodic updates; and



- Investment committee presentations and discussions.

Additionally, in analyzing a prospective investment, Ivy Hill's analysts seek information from a wide variety of sources including agent banks, fixed income and equity analysts, rating agencies, and industry sources. Ivy Hill seeks to identify those issuers exhibiting superior fundamental risk-reward profiles and strong defensible business franchises while focusing on relative value of the investment across the industry as well. The process through which Ivy Hill makes an investment decision involves extensive research into the target company, its industry, its growth prospects and its ability to withstand adverse conditions.

### *Material Risks*

**No Assurance of Investment Return.** The past performance of Ivy Hill, its affiliates and their respective investment professionals with respect to other portfolios and Funds is not indicative of the results that Ivy Hill will achieve with the Underlying Assets, particularly in light of recent volatility and risks in the markets. The past performance of Ivy Hill, its affiliates and their respective investment professionals over a particular period is not indicative of the results that may be expected in future periods. Furthermore, the strategies and risks guiding a Fund's acquisitions and dispositions of investments may differ substantially from investments and strategies undertaken by the Ivy Hill, its affiliates and their respective investment professionals with respect to other portfolios, investment vehicles or accounts. There can be no assurance that a Fund's investments will perform as well as past investments of Ivy Hill, its affiliates and their respective investment professionals, that a Fund will be able to avoid losses, or that a Fund will be able to make investments similar to the past investments of Ivy Hill, its affiliates of their respective investment professionals.

The task of identifying investment opportunities and managing such investments may be difficult. There can be no assurance that any Fund will be able to make or realize any particular investment or generate returns. Investing involves a risk of loss that Funds and investors in such Funds should be prepared to bear, including the risk of a total loss of investment. Clients and investors in the Funds should carefully consider, among other factors, the material risks discussed below involved with Ivy Hill's investment strategies. Investors in the Funds are requested to refer to the Governing Documents of the applicable Fund for more information on investment strategies employed and the corresponding risks associated with such investment strategies.

**Key Personnel.** The performance of the Funds will be highly dependent upon the skills of Ivy Hill in analyzing, acquiring and managing the Funds' investments. As a result, Ivy Hill is highly dependent on the financial and managerial experience of certain individuals, any of whom may cease to be associated with Ivy Hill at any time. None of these individuals has an employment contract with Ivy Hill and they may leave or have their employment terminated at any time with or without cause. The loss of one or more of these individuals could have a material adverse effect on the performance of the Funds. Additionally, Ivy Hill believes that it significantly benefits from its access to the Ares Management platform (including, without limitation, access to market deal flow, credit diligence and portfolio administration, accounting, tax, human resources,

information technology and legal/compliance support), but there can be no assurance that Ivy Hill will continue to have access to the Ares Management platform on the same terms as it has historically had access or at all.

**Macroeconomic Factors.** The performance of the client's investments could be adversely affected by macroeconomic factors, including general economic conditions affecting capital markets and participants therein (such as the obligations on or issuers of the client's investments). Such macroeconomic factors include (i) economic downturns and uncertainties affecting economies and capital markets worldwide, (ii) new or continuing military conflicts, incidents of terrorism and domestic unrest occurring inside or outside the United States and other consequences thereof and similar events, (iii) concerns about financial performance, accounting and other issues relating to various companies and (iv) recent and proposed changes in applicable laws, regulations or accounting and reporting standards.

**Investment and Trading Risks.** The Funds primarily invest in loans and other fixed income securities and instruments, including, without limitation, "higher yielding" (and, therefore, potentially higher risk) debt securities and instruments. Such securities and instruments will be primarily below "investment grade" or non-rated and may face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the obligor's inability to meet timely interest and principal payments. The market for such investments is often limited, and the market prices of such investments are also subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility, and the spread between the bid and asked prices of such investments may be greater than those prevailing in other more liquid markets. Further, the Funds may utilize such investment techniques as leverage, which can magnify the adverse impact to the client involved.

**Distressed Securities.** A Fund may invest in securities, private claims and obligations of domestic and foreign entities which are experiencing significant financial or business difficulties. In addition, an investment held by a Fund may, after the time of investment by the Fund, experience significant financial or business difficulties or otherwise not perform as expected. A Fund may lose a substantial portion or all of its investment in a distressed environment or may be required to accept cash or securities with a value less than a Fund's investment. The market prices of such investments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such investments may be greater than normally expected due to a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, which may significantly affect the results of a Fund's activities. Investments in distressed securities, particularly in connection with reorganizations, may involve litigation generally related to issues related to control and preference/priority among classes, claimants and other related matters. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses that by their nature involve business, financial, market and/or legal risks.

**Prepayment Risks.** The frequency at which prepayments (including voluntary prepayments and accelerations due to defaults) occur on bonds and loans will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. The upside potential of an investment prepayable at par may be limited, and there may not be suitable replacement assets for reinvestment in the case of unexpected prepayments, resulting in substantial losses.

**Portfolio Risk Factors.** The risks of debt instruments include (among others): (i) limited liquidity and secondary market support, (ii) the possibility that earnings of the relevant obligor may be insufficient to meet its debt service obligations, (iii) the declining creditworthiness and potential for (or actual) insolvency of the relevant obligor of such debt during periods of economic downturn or otherwise, (iv) that the relevant obligor is often a small or mid-size company serving only local or regional interests, (v) spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received, and (vi) if subordinated, subordination to the prior claims of other debt or senior lenders. Debt instruments are generally subject to market value volatility that may not be apparent from historical volatility studies and that could be significant at times. An economic downturn could severely disrupt the market for debt instruments and adversely affect the value of outstanding debt and the ability of the relevant obligor to repay or refinance such debt. Moreover, the default history for debt instruments is limited, actual defaults may be greater than indicated by historical data and the timing of defaults may vary significantly from historical observations.

In certain circumstances, the collateral securing a debt instrument, if any, might not be sufficient to satisfy the relevant obligor's obligations in the event of nonpayment of scheduled interest or principal, and may be difficult to liquidate on a timely basis or at all. Additionally, a decline in the value of the collateral could cause the debt to become substantially unsecured, and circumstances could arise (such as in the bankruptcy of an obligor) which could cause the security interest in the debt instrument's collateral to be invalidated or subordinated.

In some cases, the portfolios of one or more Funds may also include unsecured debt instruments. Unsecured debt instruments are subject to the same investment risks generally applicable to debt instruments described above and are subject to the additional risk that the assets and cash flows of the relevant obligor may be insufficient to repay the scheduled payments to the lender after giving effect to any secured obligations of the relevant obligor. Unsecured debt instruments will be subject to certain additional risks to the extent that such debt is not secured by collateral or may not be restricted by certain financial covenants or certain limitations upon additional indebtedness. Unsecured debt instruments are also expected to be more illiquid than senior secured debt instruments for this reason.

**Investment in Reorganizations and Restructurings.** The Funds may make investments in restructurings that involve companies that are experiencing or are expected to experience severe financial difficulties. In addition, an investment held by a Fund may,

after the time of investment by the Fund, experience significant financial or business difficulties or otherwise not perform as expected, which could result in a restructuring. These severe financial difficulties may never be overcome and may cause such companies to become subject to bankruptcy proceedings. In such situations, a Fund's investment would be subject to the risk that such bankruptcy proceeding (including, among other things, high administrative costs incurred in connection therewith) may adversely and permanently impact the value of the company. In addition, such investments could subject a Fund to certain additional potential liabilities that may exceed the value of the Fund's original investment therein. Furthermore, investments in distressed companies and restructurings may be adversely affected by statutes relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the court's discretionary power to disallow, subordinate or disenfranchise particular claims.

An investment in a company involved in a reorganization proceeding or restructuring entails significant risks and such investment may be adversely impacted if a Fund's evaluation of the anticipated outcome of the investment situation should prove incorrect.

**Participation on Creditors' Committees.** Subject to any applicable tax guidelines and other limitations in such Fund's Governing Documents, Ivy Hill, on behalf of a Fund, may, in limited circumstances, participate on committees formed by creditors to negotiate the management of financially troubled companies that may or may not be in bankruptcy or Ivy Hill, on behalf of a Fund, may seek to negotiate directly with debtors with respect to restructuring issues. If Ivy Hill does join a creditors' committee on behalf of a Fund, the participants of the committee would likely be interested in obtaining an outcome that is in their respective individual best interests and there can be no assurance of obtaining results favorable to the Fund. By participating on such a committee, a Fund may be deemed to have duties to other creditors represented by the committee, which might expose the Fund to liability to such other creditors who disagree with Ivy Hill's actions on behalf of such Fund.

Ivy Hill may also be provided with material non-public information (whether as a result of participating on any such committee or otherwise) that may restrict the Funds from trading in a company's securities. While Ivy Hill and the Funds intend to comply with all applicable securities laws and to make judgments concerning restrictions on trading in good faith, a Fund may trade in a company's securities while engaged in the company's restructuring activities. Such trading creates a risk of litigation and liability that may cause the Fund to incur significant legal fees and potential losses.

**Highly-Leveraged Borrowers.** The issuers of debt in which a Fund may invest are likely to be highly or substantially leveraged. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Although a Fund's debt instruments may be in the senior position of the capital structure, a borrower's leverage

(including any junior debt instruments) may adversely impact a Fund in a number of ways, creating a greater possibility of default or bankruptcy of the borrower.

In addition, it is possible that the pledging of collateral (if any) to secure a Fund's debt investments (or certain payments made in respect of a Fund's debt investments) could be found to constitute a fraudulent conveyance or preferential transfer which would be nullified or subordinated to the rights of other creditors of the borrower under applicable law. In addition, Funds may also utilize leverage, which magnifies the risk of loss and will increase the exposure of such Funds to adverse economic factors such as rising interest rates and downturns in the economy. In the event that a Fund is unable to meet principal or interest payments on its indebtedness, the value of an investor's investment in such Fund could be significantly reduced or even eliminated.

**Special Situations.** A Fund may invest in companies involved in (or the target of) acquisition attempts or tender offers or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price paid by a Fund the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, a Fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which a Fund may invest, there is a potential risk of loss by a Fund of its entire investment in such companies. In connection with such transactions (or otherwise), a Fund may purchase securities or other financial instruments on a when-issued basis, which means that delivery and payment take place sometime after the date of the commitment to purchase and is often conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, reorganization or debt restructuring. The purchase price or interest rate receivable with respect to a when-issued security may be fixed when a Fund enters into the commitment, thus such securities or other financial instruments are subject to changes in their market value prior to delivery.

**Changes in Interest Rates.** The Funds are exposed to risks associated with changes in interest rates. General interest rate fluctuations may have a substantial negative impact on the Funds' investments and investment opportunities and, accordingly, may have a material adverse effect on the Funds' investment objectives and rates of return on invested capital.

**Illiquidity of Debt Instruments.** Debt instruments and interests in debt instruments have significant liquidity risks and market value risks since they are not generally traded in organized exchange markets, but are traded by banks and other institutional investors engaged in loan syndications (if traded at all). Such liquidity risks are particularly prevalent with respect to middle market debt instruments. In such cases, the primary resale opportunities for such debt instruments and interests (if any) are privately negotiated transactions with a limited number of potential purchasers. This may restrict

the ability of a Fund to dispose of investments in a timely fashion or at a favorable price or at all. The inability to dispose of a debt instrument or interest in a debt instrument could result in losses to a Fund, including the loss of its entire investment. The debt of highly-leveraged companies or companies in default also may be less liquid than other debt. If a Fund voluntarily or involuntarily sells such a debt instrument (or an interest in those types of debt securities), it may not receive the fair market value therefor.

**Economic Recessions or Downturns.** Economic recessions or slowdowns could impair the portfolio companies of the Funds and impact the Funds' investment performance. Many of these portfolio companies may be susceptible to economic slowdowns or recessions (including the recent recession and slowdowns or recessions more or less severe) and may be unable to repay loans during these periods. Therefore, during these periods, a Fund's non-performing, credit risk or defaulted assets may increase. Economic slowdowns or recessions could lead to financial losses in a Funds' portfolio and a decrease in its cash flows and assets.

**Investments in Privately Held Middle-Market Companies.** The Funds primarily invest in privately held U.S. middle-market companies. Non-investment grade loans to middle-market businesses may carry more inherent risks than non-investment grade loans to larger, publicly traded entities. Investments in privately held middle-market companies involve a number of significant risks, including, among others, the following:

- these companies may have limited financial resources and may be unable to meet their obligations, which may be accompanied by a deterioration in the value of any collateral;
- these companies typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;
- there is generally little public information about these companies. These companies and their financial information are not subject to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other regulations that govern public companies, and a Fund may be unable to uncover all material information about these companies, which may prevent such Fund from making a fully informed investment decision and contribute to such Fund losing money on its investments;
- these companies generally have less predictable operating results and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; or
- these companies may have difficulty accessing the capital markets to meet future capital needs.



Accordingly, investments in middle-market companies involve higher risks than investments in companies that have larger businesses, greater financial resources or are otherwise able to access traditional credit sources. Middle-market and leveraged loans have historically experienced greater default rates than has been the case for investment grade and larger loans.

**Debt Investments.** Debt instruments are subject to credit and interest rate risks. Credit risk refers to the likelihood that an obligor will default in the payment of principal or interest on a debt instrument. Financial strength and solvency of an obligor are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of a debt instrument and debt instruments that are rated by rating agencies are subject to downgrade at a later date.

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 obligations) or directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on the price of a fixed rate debt instrument. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (generally depending on the index chosen and the characteristics of the reset terms, including the 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.

**Lender Liability Claims.** There may be circumstances where a Fund's debt investments could be subordinated to claims of other creditors or the Fund could be subject to lender liability claims. If one of a Fund's portfolio companies were to enter bankruptcy, even though such Fund may have structured its interest as senior debt, depending on the facts and circumstances, a bankruptcy court might recharacterize such Fund's debt holding as an equity investment and subordinate all or a portion of such Fund's claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower.

## Item 9 - Disciplinary Information

Neither Ivy Hill nor any of its management persons has been the subject of any material legal or disciplinary proceedings that are material to a client's evaluation of Ivy Hill's business or the integrity of its management.

## Item 10 - Other Financial Industry Activities and Affiliations

### ***Registered Broker-Dealers***

Neither Ivy Hill nor any of its management persons is registered or has an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

### ***Registered Futures Commission Merchants, Commodity Pool Operators and Commodity Trading Advisors***

Neither Ivy Hill nor any of its management persons is registered as a futures commission merchant, commodity pool operator (“CPO”) or commodity trading advisor; however, Ivy Hill has claimed an exemption from registration as a CPO in connection with certain of the Funds it manages.

### ***Relationships with Related Persons***

Ivy Hill is directly or indirectly wholly owned by Ares Capital Corporation (“ARCC”), a closed-end, non-diversified specialty finance company that is regulated as a business development company under the Investment Company Act. Ares Capital is externally managed by ACM, an SEC-registered investment adviser. Ares Management is the parent company of ACM and an SEC-registered investment adviser.

In addition Ares Management is the parent company of:

- (i) Ares Capital Management II LLC (“ACM II”), an SEC-registered investment adviser, and the investment adviser of Ares Dynamic Credit Allocation Fund, Inc. (“ARDC”; NYSE:ARDC) and Ares Multi-Strategy Credit Fund, Inc. (“ARMF”; NYSE:ARMF), both of which are non-diversified closed-end registered management investment companies;
- (ii) Ares Capital Management III LLC (“ACM III”), an SEC-registered investment adviser, ACM III provides advisory services to primarily Korean-based institutional investors;
- (iii) Ares Commercial Real Estate Management LLC (“ACREM”), an SEC-registered investment adviser. ACREM provides advisory services to Ares Commercial Real Estate Corporation (“ACRE”), a publicly traded specialty finance company that has elected to be treated as a real estate investment trust;
- (iv) Ares Real Estate Management Holdings LLC (“AREMH”), an SEC-registered investment adviser, AREHM primarily to pooled investment vehicles and other institutional accounts;
- (v) Ares EIF Management, LLC (“Ares EIF”), an SEC-registered investment adviser. Ares EIF specializes in private investment opportunities in the U.S. power sector and advises pooled investment vehicles that invest in that sector;
- (vi) Ares Management Limited (“AML”), an entity formed in the United Kingdom and authorized by the UK Financial Conduct Authority; and



- (vii) Ares Management UK Limited (“AMUKL”), an entity established in the United Kingdom and authorized and regulated by the UK Financial Conduct Authority.

Additionally, Ares Management has related persons that are exempt, unregistered investment advisers to certain of Ares Management’s clients and are the general partners and, in many cases, limited partners of the Ares Management funds and other investment vehicles that are limited partnerships.

From time to time, Ivy Hill invests in debt and/or equity securities issued by certain of the Funds and Ares Capital has also invested, and may in the future invest, in securities issued by one or more of the Funds. In addition, persons affiliated with ACM and entities managed by affiliates of ACM, including entities managed by Ares Management, have invested, and such entities and/or entities managed by ACM may in the future invest, in securities issued by one or more of the Funds. While Ivy Hill endeavors at all times to act in the best interests of the Funds, investors should be aware that the investment by Ivy Hill, Ares Capital or entities managed by affiliates of ACM, including entities managed by Ares Management, in a Fund may create potential conflicts of interest.

Certain Ivy Hill personnel may spend substantially all of their business time on one or more of the Funds as required pursuant to the terms of the relevant Governing Documents. In connection with investment activities, employees may from time to time be given access to confidential information relating to companies in which the Funds invest. As a result, the Funds may, under certain circumstances, be prohibited for a period of time from engaging in transactions with respect to the debt or securities of such a portfolio company, which prohibition may have an adverse effect on the Funds.

The Funds have from time to time purchased assets from or sold assets to Ares Capital or another Fund. As part of Ivy Hill’s investment strategy for the Funds, it may purchase additional assets for the Funds from, or it may sell assets from one or more of the Funds to, Ares Capital or another Fund. While assets may be sold or purchased at prices that are consistent with those that could have been obtained from third parties, and although these types of transactions generally require approval of an independent party, there may be inherent conflicts of interest in such transactions.

Principals, officers and employees of Ivy Hill (“Covered Persons”), members of their families and related persons of Ivy Hill may participate directly or indirectly as investors in the Funds as described in the Governing Documents of the Funds, which may be through privately negotiated transactions at varying prices. Ivy Hill may recommend to clients the purchase or sale of investments in which it, or a Covered Person or related person thereof, has a financial interest. In addition, Ivy Hill permits its Covered Persons to engage in personal securities transactions, subject to compliance with its Code of Ethics. For a general discussion of how Ivy Hill addresses resulting conflicts of interest, see the discussion under Item 11 – “Code of Ethics” below.

### ***Selection or Recommendation of Other Advisers***

Ivy Hill does not recommend or select other third-party investment advisers for its clients. Ivy Hill does not have other business relationships with other advisers that create a material conflict of interest except with respect to ACM, which is an SEC-registered investment adviser, ACM's parent company, Ares Management, which is an SEC-registered investment adviser, and ACM II, ACM III, ACREM, AREHM, Ares EIF, AMK and AMUKL, all wholly owned subsidiaries of Ares Management.

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

### ***Code of Ethics***

Ivy Hill has adopted a Code of Ethics (the "Code") pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), that includes, among other things, (a) policies and procedures regarding personal securities transactions, (b) disclosure and reporting obligations of personal securities transactions and holdings, and (c) obligations for Covered Persons to report any violations of the Code to Ivy Hill's Chief Compliance Officer ("CCO"). Any client or prospective client or investor or prospective investor in a Fund may obtain a copy of the Code upon request to:

Ivy Hill Asset Management, L.P.  
Attn: Compliance Department  
245 Park Avenue, 43<sup>rd</sup> Floor  
New York, NY 10167

### ***Participation or Interest in Client Transactions; Personal Trading***

The Code provides that no Covered Person may engage directly or indirectly in any business investment in a manner detrimental to the Funds or use confidential information gained by reason of his or her employment by or affiliation with Ivy Hill in a manner detrimental to the Funds. Further, as general partners, limited partners or investors in certain of the Funds, Ivy Hill and its related persons have indirect beneficial interests in the securities or investments owned by such Funds and will share in any profits and losses generated by such Funds' investments. The Code requires that before, or at the time that, a Covered Person recommends or authorizes the purchase or sale of a "covered security" by a Fund, he or she must disclose to the CCO: (i) any beneficial ownership in such covered security that he or she has or proposes to acquire; (ii) any interest he or she has or proposes to acquire in any third party account in which such covered security is held; (iii) any beneficial interest in any other security that may benefit from such proposed purchase, sale or other action; and (iv) any interest in or business relationship with the issuer of such covered security that a Covered Person or his or her "covered family member" (as defined in the Code) has or proposes to acquire.

The Code covers personal trading policies and procedures of all Covered Persons and their covered family members. Under the Code, Covered Persons and their covered family members are permitted to trade in securities for their own accounts so long as they follow the Code, which contains preclearance procedures, reporting requirements and

other provisions that restrict trading by Covered Persons. Generally, for “covered securities” transactions in a Covered Person’s or a covered family member’s account, Covered Persons are required to obtain preclearance approval from the Compliance Department. Covered securities purchased by a Covered Person or a covered family member are generally subject to a minimum holding period. The Code also requires that all covered securities holdings and transaction information in covered securities accounts be disclosed to the Compliance Department. Any transactions in securities or investments that are held by one or more Funds or other clients are generally subject to a blackout period of five business days after any client or Fund has traded in any security of that issuer and may further be restricted further by a Fund’s Governing Documents. The Code’s personal trading procedures are administered by the Firm’s Compliance Department. On a quarterly basis, Covered Persons must provide a report on all applicable transactions in any covered security in which they have acquired direct or indirect ownership and any brokerage accounts that they or covered family members maintain. On an annual basis, Covered Persons must provide a full accounting of their covered securities holdings. Lastly, Covered Persons are required to certify that they have read and understand the Code, and certify that they have complied with the provisions of the Code on an annual basis.

#### *Other Potential Conflicts*

From time to time, subject to the applicable Governing Documents, a Fund may engage in cross trades with one or more other Funds, typically for purposes of rebalancing their portfolio in order to further such participating Funds’ respective investment programs, or for other reasons consistent with the investment and operating guidelines of the Fund or such other Funds. Neither Ivy Hill nor its affiliates will receive commission or similar fees in connection with such cross trade. Generally, the value of any positions that are cross-traded in this manner will be determined in a manner that is consistent with its fair valuation methodologies.

In addition, Ivy Hill and its related persons may, directly or through one or more entities, sell securities or investments in which they have a direct or indirect ownership interest to certain Funds in connection with certain “warehousing” transactions, provided that the sale is consistent with Ivy Hill’s fiduciary obligations to such Funds. Such transactions will be fully disclosed in writing, and the written consent of the appropriate Fund (which, in certain circumstances, may be provided by a Fund’s Transaction Committee or Independent Review Committee) will be obtained prior to the consummation of any such transaction in accordance with Section 206(3) of the Advisers Act and all other applicable state and federal securities laws.

Ivy Hill makes investments on its own behalf and on behalf of its affiliates. In addition, Ivy Hill and its affiliates may co-invest with certain of the Funds as permitted by the applicable Governing Documents and subject to certain regulatory limitations. In addition, related persons of Ivy Hill and one or more Funds may invest in the same or different securities of a portfolio company, and in certain cases, a Fund may purchase an investment from or sell an investment to a related person of Ivy Hill. Any such co-investments or related transactions may raise potential conflicts of interest, particularly if a Fund invests in different classes or types of securities of the same portfolio company.

In that regard, actions may be taken by such other Fund or related person that are adverse to a Fund. In the case of transactions involving a Fund purchasing from or selling to a related person of Ivy Hill, the Governing Documents generally provide for the review of such transactions by individuals otherwise unaffiliated with Ivy Hill.

Ivy Hill also requires certain outside business activities to be reported and monitored to avoid potential or actual conflicts of interest. Such activities require prior written approval from the CCO, and may be subject to restrictions or conditions and is revocable at any time.

## **Item 12 - Brokerage Practices**

Subject to the investment objectives, policies and restrictions of each Fund as set forth in its Governing Documents, Ivy Hill has discretionary authority to determine the type, amount, and price of securities and investments to be bought and sold on behalf of each Fund, including the selection of, and commissions paid to, any brokers-dealers.

In selecting broker-dealers to effect transactions, Ivy Hill seeks to obtain best execution by considering various factors, including, but not limited to, price (including the applicable brokerage commission or dealer spread), size of order, timeliness and certainty of execution, liquidity of the securities or instrument traded, expertise as it relates to specific securities or instruments, counterparty risk and business reputation. While Ivy Hill generally seeks reasonably competitive trade execution costs, Funds will not necessarily pay the lowest spread or commission available.

From time to time, Ivy Hill may receive client or investor referrals from broker-dealers, which may provide an incentive for Ivy Hill to select or recommend certain broker-dealers for execution services. Please refer to the subsection entitled “Third Party Compensation for Referrals” in Item 14 below for additional information.

### ***Research and Other Soft Dollar Benefits***

Section 28(e) of the Exchange Act provides a safe harbor that permits investment advisers, when selecting brokers to execute transactions for client accounts, to take into account certain research products and services provided to the investment adviser by brokers. Ivy Hill does not engage in soft dollar arrangements.

### ***Trade Aggregation***

Under Ivy Hill’s policy regarding aggregation of orders, orders for the same investment, including acquisition and disposition transactions, entered on behalf of more than one client may be aggregated (i.e., blocked or bunched), subject to the aggregation being in the best interests of all participating clients. The trade order must indicate the amount or percentage of the trade intended to be allocated to each participating client. If the final allocation differs from the initially indicated allocation or is not allocated on a pro rata basis for partially filled orders, except in the case of de minimus changes in the allocations, a written rationale must be provided in the allocation statement. Please refer

to “Item 6. Side-by-Side Management” for further information regarding Ivy Hill’s allocation policy.

## **Item 13 - Review of Accounts**

### ***Review of Client Accounts***

Ivy Hill monitors all portfolio investments on behalf of each Fund on an ongoing basis. Investments are reviewed in the context of each client’s (i) adherence to the investment objectives and guidelines as set forth in its Governing Documents and (ii) investment performance. Subsequent to an investment, such position is monitored on an ongoing basis by at least one investment professional. The monitoring may include ongoing dialogue with the agent bank, company management, fixed income and equity analysts, rating agencies and/or industry sources. In addition, a client’s positions as well as a client’s overall performance and adherence to its investment mandates and restrictions are monitored on an ongoing basis by Ivy Hill’s senior investment professionals.

### ***Reports to Clients***

Ivy Hill provides reports to investors in the Funds or a Fund’s independent trustee as required by the applicable Governing Documents. Investors in Funds should refer to the applicable Governing Documents for further information on the reports required to be provided by Ivy Hill.

The Governing Documents of the Funds typically require quarterly and annual financial information to be distributed to a Fund’s investors, and Ivy Hill also may provide written investor letters with respect to a Fund and its performance. Ivy Hill distributes K-1 filings to investors, where applicable, and provides certain other reports and analyses to investors and potential investors upon request.

With respect to certain Funds that are collateralized loan obligations or similar structured finance vehicles, the independent trustees of such Funds generally prepare monthly compliance reports. Additionally, Ivy Hill may prepare investor letters, portfolio profile summaries or pro forma results to supplement or further clarify a trustee report. Also, in connection with distributions for certain Funds, Ivy Hill typically sends a letter to the investors in these Funds summarizing the current status of the particular Fund and all distributions made to date.

Finally, Ivy Hill may hold investor meetings and calls as appropriate for certain of the Funds.

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

### ***Economic Benefits Received from Third Parties***

In connection with investments made by certain of the Funds, Ivy Hill or its related persons may receive commitment, structuring, monitoring and/or other transaction fees from portfolio investments in which one or more of the Funds may invest or propose to

invest. The potential for Ivy Hill and its related persons to receive such economic benefits may create conflicts of interest as Ivy Hill and its related persons may have economic incentives to invest in portfolio investments that provide such benefits.

### ***Third Party Compensation for Referrals***

Any of the Funds or Ivy Hill may pay placement or structuring fees to placement agents or other third parties who assist in structuring Funds or placing interests in the Funds with investors. These fees may be payable by investors, one or more of the Funds, the general partner of a Fund, Ivy Hill or a combination thereof.

Certain of the solicitors or placement agents utilized to market Ivy Hill's Funds, as well as individuals employed by such solicitors or placement agents, may invest in the Funds and may not pay, or may pay reduced, advisory fees with respect to their investment(s) in the Funds. In addition, Ivy Hill may transact client orders through broker-dealers that also act as solicitors or placement agents for its Funds.

Ivy Hill endeavors at all times to put the interests of its clients first as part of Ivy Hill's fiduciary duty. Nevertheless, the receipt of compensation by placement agents and the potential receipt of brokerage commissions by broker-dealers may create potential conflicts of interest and may affect the judgment of placement agents and broker-dealers when making referrals to Ivy Hill and the Funds. Moreover, potential conflicts of interest may arise between the interests of clients in obtaining best price and execution and Ivy Hill's interest in receiving future referrals to the Funds from certain broker-dealers. Ivy Hill addresses these potential conflicts of interest by seeking to obtain best execution by considering the factors set forth in Item 12 - "Brokerage Practices" above.

## **Item 15 - Custody**

It is Ivy Hill's general policy to not have physical custody of any Fund assets. However, Ivy Hill may be deemed to have custody of the assets of certain Funds because of the authority it or a related party has over such Fund or its assets. It is Ivy Hill's policy generally to cause each Fund with assets over which Ivy Hill is deemed to have "custody" to be audited annually and to distribute audited financial statements, prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), to investors in such Funds no later than 120 days after the end of each fiscal year. In addition, upon the final liquidation of any such Fund, Ivy Hill will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Fund to all investors promptly after completion of the audit.

In the alternative, where Ivy Hill is deemed to have custody of a client account solely due to its ability to withdraw client funds to pay its advisory fees, Ivy Hill may comply with the custody rules under the Advisers Act by having a reasonable belief that a qualified custodian will send quarterly account statements to each investor or client. Ivy Hill urges all clients and investors to compare the reports they receive from Ivy Hill to the statements they receive from their custodians. Any issues or discrepancies should be communicated to Ivy Hill promptly.



## Item 16 - Investment Discretion

Ivy Hill has discretionary authority to determine the type, amount and price of securities and other investments to be bought and sold on behalf of each Fund, including the selection of, and commissions paid to, broker-dealers. This discretionary authority is subject to the investment objectives, policies and restrictions as set forth in the Governing Documents of each such Fund. In order to assume such discretionary authority, each investor must complete the appropriate Fund subscription documents or an investment advisory agreement prior to the establishment of an advisory relationship granting such authority.

## Item 17 - Voting Client Securities

Ivy Hill's advisory business primarily focuses on middle market senior secured loans; however, clients may in certain circumstances acquire voting securities. In instances where a client owns equity securities in which it has the right to vote via a proxy (each a "Voting Security"), Ivy Hill generally retains proxy voting authority with respect to these Voting Securities. Ivy Hill has adopted and implemented written Proxy Voting Policies and Procedures ("Proxy Voting Procedures") that are designed to reasonably ensure that Ivy Hill votes proxies in the best interests of its advisory clients for whom Ivy Hill has voting authority.

The Proxy Voting Procedures describe the positions Ivy Hill generally takes in voting proxies on particular issues and require Ivy Hill to keep records with respect to the votes cast.

The Proxy Voting Procedures also provide that, in the event a particular proxy vote would involve a conflict between the interests of Ivy Hill and its affiliates and those of one or more clients of Ivy Hill, Ivy Hill, if it so elects, may:

- vote in accordance with the recommendations of a disinterested third party;
- refer the voting decision to the client; or
- abstain from voting.

Clients may obtain a copy of Ivy Hill's Proxy Voting Procedures or information about how Ivy Hill voted client proxies by contacting the Legal Department of Ivy Hill's administrator at (310) 201-4100.

## Item 18 - Financial Information

Not Applicable.