

## Item 1 - Cover Page



### ADVISER BROCHURE

Form ADV Part 2A

#### **Ranger Alternative Management II, LP**

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March 31, 2016

Part 2A of the Form ADV (the “Brochure”) provides information about the qualifications and business practices of Ranger Alternative Management II, L.P. (the “Firm” or “Investment Manager”). If you have any questions about the contents of this Brochure, please contact us at (214) 871-5200. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

The Firm is registered with the United States Securities and Exchange Commission in accordance with the Investment Advisers Act of 1940. Registration with the SEC as an investment adviser does not imply any level of skill or training.

Additional information about the Investment Manager (CRD # 168942) is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about persons who are both affiliated with the Firm and registered as investment advisers with the SEC.

**REFERENCES AND DISCLOSURES RELATING TO A FUND PRESENTED HEREIN, INCLUDING BUT NOT LIMITED TO: (I) THE INVESTMENT OBJECTIVE, STRATEGIES, AND MANAGEMENT OF A FUND, (II) RISKS AND CONFLICTS OF INTEREST ASSOCIATED WITH AN INVESTMENT IN A FUND, (III) AND DESCRIPTIONS OF INVESTMENT PRODUCTS UNDERTAKEN WITHIN A FUND’S PORTFOLIO, ARE QUALIFIED IN THEIR ENTIRETY BY AND SHOULD BE READ IN CONJUNCTION WITH SUCH FUND’S PRIVATE PLACEMENT MEMORANDUM AND OTHER OFFERING DOCUMENTS (THE “OPERATIVE DOCUMENTS”), PROSPECTUS OR INVESTMENT MANAGEMENT AGREEMENT. PROSPECTIVE INVESTORS ARE STRONGLY ENCOURAGED TO REVIEW APPLICABLE FUND OPERATIVE DOCUMENTS CAREFULLY, AND CONSULT THEIR INDIVIDUAL FINANCIAL, LEGAL OR TAX ADVISORS. COPIES OF SUCH OPERATIVE DOCUMENTS OR PROSPECTUS MAY BE OBTAINED BY CONTACTING THE FIRM AT (214) 871-5251.**

## Item 2 - Material Changes

SEC rules require the Firm, and other registered investment advisers, to provide its Clients with a copy of the Brochure within 120 days of the close of its fiscal year, as well as on an ongoing basis when material changes make such disclosures necessary. The Firm's Brochure is intended to provide its Clients with a clearly written and meaningful disclosure, in plain English, about the Firm's business practices, conflicts of interest and advisory personnel.

The Firm's Form ADV 2 is divided into two parts, *Part 2A* and *Part 2B*. The Brochure, or *Part 2A* of the Form ADV, provides information about a variety of topics relating to the Firm's business practices and conflicts of interest. *Part 2B* of the Form ADV (the "Brochure Supplement") provides information about the Firm's advisory personnel.

The effective date of this Brochure is March 31, 2016, which replaces the Brochure dated November 1, 2015. Item 2 of this Brochure discusses only specific material changes made to the Brochure from the most recent prior filing date, a summary of which is included below.

1. **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss** was amended to reflect updates to the Firm's investment strategies and objectives. In addition, the risk portion of this section was enhanced.
2. All other changes made to the previous version of the Brochure were immaterial.

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## Item 4 - Advisory Business

The Firm is an investment adviser that commenced operations on November 1, 2013. The Firm was organized as a Texas limited partnership by Ranger Alternative Management (GP), LLC, a Texas limited liability company which serves as its general partner. Ranger Alternative Management (GP), LLC is controlled by (i) Ranger Capital Group Holdings, L.P., a Texas limited partnership which serves as its managing member, (ii) Ranger Capital Group, LLC, a Texas limited liability company which serves as the general partner of Ranger Capital Group Holdings, L.P., and (iii) Jason Elliott, who serves as the manager of Ranger Capital Group, LLC.

The Firm registered with the United States Securities and Exchange Commission (the “SEC”), in accordance with the Investment Advisers Act of 1940, effective November 29, 2013. As of March 31, 2016, the Firm managed approximately \$220 million of client assets on a discretionary basis. The Firm does not manage non-discretionary accounts.

The Investment Manager currently serves as adviser to and provides continuous investment advisory services on a discretionary basis to: (i) the Ranger Specialty Income Fund, LP, a Delaware limited partnership (the “Domestic Fund”), and (ii) the Ranger Specialty Income Fund, Ltd., a Cayman Islands exempted company (the “Cayman Fund”, and together with the Domestic Fund, the “Private Funds”). The Private Funds are private pooled investment vehicles which are exempt from registration as an investment company under the Investment Company Act of 1940. The Firm does not participate in wrap fee programs.

The Firm also serves as the investment manager to and provides continuous investment advisory services on a discretionary basis to the Ranger Direct Lending Fund plc (the “RDLF”), a publicly traded pooled investment vehicle which was formed in the United Kingdom and which trades on the London Stock Exchange and together with the Private Funds, the “Funds”).

The Private Funds are exempt from registration pursuant to section 3(c)-1 of the Investment Company Act of 1940. The Firm solicits investors for each of the Private Funds mentioned above. In accordance with Rule 506 of Regulation D, the Private Funds are available to a limited number of accredited investors. Current and prospective investors should ensure that they are capable of evaluating the merits and risks of an investment in a Private Fund.

Fund portfolios primarily, but not exclusively, invest in debt instruments (the “Debt Instruments” or “Portfolio Investments”) offered by a variety of domestic and international direct lending sources (the “Lending Sources”). Portfolio Investments may be undertaken in a variety of investment categories, including without limitation, secured and unsecured consumer Debt Instruments and secured and unsecured Debt Instruments which generally provide funding for equipment and supply chain assets, small business ventures, lines of credit, factoring receivables, automobiles, healthcare, real estate, and other specialty finance opportunities. The Firm will generally adhere to the above objectives with respect to each of the Funds, subject to the specific investment strategies, restrictions or strategies further described in the Private Funds’ confidential offering memorandum (the “Memorandum”), the RDLF prospectus or investment management agreement (collectively, the “Offering Documents”).

**ALL DESCRIPTIONS AND REFERENCES TO THE FUNDS IN THIS BROCHURE ARE QUALIFIED IN THEIR ENTIRETY BY THE FUNDS OFFERING DOCUMENTS, INCLUDING WITHOUT LIMITATION, WITH RESPECT TO OBJECTIVES, STRATEGIES, DISCLOSURES RELATING TO INVESTMENTS,**

**AND TERMS OF INVESTMENTS. PROSPECTIVE INVESTORS ARE THEREFORE STRONGLY ENCOURAGED TO CAREFULLY REVIEW APPLICABLE OPERATIVE DOCUMENTS RELATING TO THE PRIVATE FUNDS, RDLF OR SEPARATE ACCOUNTS, AND CONSULT THEIR LEGAL, TAX AND/OR FINANCIAL REPRESENTATIVES PRIOR TO MAKING AN INVESTMENT. COPIES OF SUCH OFFERING DOCUMENTS MAY BE OBTAINED BY CONTACTING THE FIRM AT (214) 871-5251.**

## **Item 5 – Fees and Compensation**

The Firm directly or indirectly charges Clients management fees which are a fixed percentage of assets under management (“Management Fees”), and performance fees or allocations which are a fixed percentage of profits realized by the Funds (or their Investors), after adjusting for expenses and high water marks (“Performance Fees”, and together with Management Fees, the “Fees”).

Generally, Fees are charged in accordance with the schedule set forth in this Brochure. However, the Firm reserves the right to negotiate Fees with the underlying investors in the Funds (the “Investors”) which may differ from the standard schedule, based on specific circumstances and on a case by case basis. Examples of these circumstances include, without limitation, the relative size of an Investor’s account, an Investor’s affiliation to the Firm, and/or an Investor’s status as a seed or strategic investor. As such, Fees incurred by Investors may vary significantly.

### Management Fee

Management Fees for the Private Funds are calculated and accrued monthly and payable quarterly (or pro-rated periods therein) in advance. The Firm deducts Management Fees from investor accounts on the first day of the calendar quarter. To the extent that a limited partner in a Private Fund redeems its investment, the Firm will promptly refund all fees paid in advance for periods after such applicable redemption date.

### Performance Fee

Generally, the Firm charges a Performance Fee of up to ten percent (10%) of an Investor’s allocable share of net profits for a fiscal year, as measured net of Management Fees, other expenses and default reserves. Performance Fees are generally charged on a quarterly or annual basis. However, Performance Fees are also charged at such time in which a partial or full withdrawal is affected by the Funds, on the basis of net profits allocated to such limited partner through the final withdrawal date.

Performance Fees for various Client accounts may be subject to a “high water mark” limitation. Thus, after the first year in which a Performance Fee is earned, the Performance Fee for subsequent years only applies to the extent that applicable investor’s net profits measured on a cumulative basis, net of any losses, for all years exceeds the highest level of such cumulative net profits achieved through the close of any prior year.

### Management Fees and Performance Fee Exclusive of Expenses

Management Fees and the Performance Allocation are exclusive of expenses associated with investments in the Funds. Although, the Firm is responsible for its general overhead expenses, Investors bear the cost attributable to the Funds’ investment activities and operations, including without limitation, expenses associated with trading or transaction costs, administration, accounting and operations.

Fees are generally referenced at an annual rate, but are generally calculated and charged in advance on a daily, monthly or quarterly basis. To the extent that an Investor redeems its investment, the

Firm will promptly refund all fees paid in advance for periods after such applicable redemption date.

#### Fees in Master Feeder Structure within Private Funds

The Firm currently employs a master-feeder structure between the Private Funds whereby the Cayman Fund participates in the Firm's portfolios through a limited partnership interest in the Domestic Fund. Although such master-feeder structure provides for greater flexibility and liquidity with respect to the Private Funds' investment program, it may subject the Cayman Fund to its pro rata portion of certain expenses of the Domestic Fund. Notwithstanding the above:

(i) Investors in the Cayman Fund will either be charged a Management Fee or Performance Allocation/Fee by the Cayman Fund or as an expense of the Domestic Fund, but will not be charged such fees on a duplicate basis, and (ii) the Firm has the right, at its sole discretion, to exempt or reduce the Cayman Fund's participation in any expenses of the Domestic Fund, to the extent it believes such exemption or reduction to be equitable, including (without limitation) with respect to expenses associated with any third party's services to the Domestic Fund or the Domestic Fund's audit.

#### Ranger Direct Lending Fund Trust

The Funds may participate in underlying investments through an interest in the Ranger Direct Lending Fund Trust, a Delaware statutory trust (the "Trust") which employs segregated series with respect to individual beneficiaries. To the extent a Fund participates in the Trust, such Fund will be subject to its pro-rata share of expenses attributable to the Trust, but will not bear any additional fees.

#### Compensation to Third Parties

Please see **Item 14 – Client Referrals and Other Compensation** for information regarding compensation received by or paid to affiliated and unaffiliated persons for the solicitation of Investors for the Funds.

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

As referenced in **Item 5 – Fees and Compensation** above, the Firm generally charges Performance Fees. Such Performance Fee arrangements may create an incentive for the Firm to invest in debt instruments which may be riskier or more speculative than the debt instruments it would invest in under a different fee arrangement. In addition, Performance Fee arrangements may create an incentive for the Firm to favor higher fee paying accounts over other accounts with respect to the allocation of investment opportunities.

The Private Funds invest through a master-feeder structure, and as such all Investors participate in each Private Funds' investments on a *pro rata* basis. However, RDLF and other potential Clients undertaken by the Firm may not invest through the Funds' master-feeder structure. As such, the Firm shall adopt compliance procedures which seek to ensure that (i) all investors are treated equitably, and (ii) potential conflicts of interest which may influence the allocation of investment opportunities among Client and Investor accounts are mitigated.

## Item 7 – Types of Clients

The Firm provides investment advisory services on behalf of the Funds. Beneficiary clients in the Funds may include, but are not limited to, sophisticated qualified clients, including high net worth individuals, family offices, individual retirement plans, pension plans, endowments, fund-of-funds, trusts, investment organizations, and insurance companies and other institutions or businesses.

Generally, the minimum subscription amount for an investment in the Private Funds is two hundred fifty thousand dollars (\$250,000). However, the Firm reserves the right to accept subscriptions of any lesser amount, at its sole discretion.

Shares of RDLF are traded on the London Stock Exchange and therefore have no specific client qualifications or minimum investment requirement.

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

Fund portfolios primarily invest in debt instruments (the "Debt Instruments" or "Portfolio Investments") offered by a variety of domestic and international direct lending sources (the "Lending Sources"). Portfolio Investments may be undertaken in a variety of investment categories, including without limitation, secured and unsecured consumer Debt Instruments, secured and unsecured business Debt Instruments. Portfolio Investments may be undertaken in a variety of investment categories, including without limitation, secured and unsecured consumer Debt Instruments and secured and unsecured Debt Instruments which generally provide funding for equipment and supply chain assets, small business ventures, lines of credit, factoring receivables, automobiles, healthcare, real estate, and other specialty finance opportunities.

With respect to a variable portion of its portfolios, and subject to a Lending Source having and providing sufficient loan performance history, the Firm intends to employ a unique and proprietary Portfolio Investment selection technology ("TruSight Technology") which uses an artificial intelligence engine to automatically generate a set of algorithms based upon the prior history of Debt Instruments originated from specific Lending Sources. The resulting algorithms isolate borrower and Debt Instrument characteristics which they deem most likely to provide the highest return on an aggregated basis. Information and guidance provided by the Portfolio Manager may influence the criteria to be used, along with the combined confidence from the set of algorithms to determine which Debt Instruments are to be selected and their investment amounts. After analyzing new Debt Instruments available on said Lending Sources, Debt Instruments or portions of Debt Instruments for investment are then selected, investment amounts are determined, and investments are generally made by TruSight Software.

While the Debt Instrument selection process using TruSight Software often operates without the need for human interaction, the Firm is permitted, at its discretion and without limitation, to make investments without use of the TruSight Software. Many Lending Sources the Firm engages do not have sufficient loan history necessary for analysis by TruSight Software. The investment team will select Debt Instruments from such Lending Sources primarily based upon the underwriting rules and classifications used by the Lending Source in conjunction with due diligence performed by the Firm's investment team members. If the Lending Source does not have an experienced underwriting team, the Firm's investment team will evaluate and select candidates for investment.



*The information presented in **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss** is qualified in its entirety by reference to the Funds’ Investment Program in the Private Placement Memorandum, the RDLF’s Prospectus or an applicable Investment Management Agreement. A copy of the Private Placement Memorandum or Prospectus may be obtained by contacting the Firm at (214) 871-5251.*

## **RISK FACTORS**

EACH FUNDS’ INVESTMENT PROGRAM ENTAILS A SIGNIFICANT DEGREE OF RISK, INCLUDING WITHOUT LIMITATION, THE RISK THAT PROSPECTIVE INVESTORS MAY LOSE ALL OR A SIGNIFICANT PORTION OF THEIR INVESTMENT CAPITAL. THERE CAN BE NO ASSURANCE THAT THE FIRM OR FUNDS WILL BE ABLE TO AVOID LOSS, ACHIEVE THEIR INVESTMENT OBJECTIVES OR RECEIVE A POSITIVE RETURN ON INVESTMENT CAPITAL. IN ADDITION, INTERESTS OR SHARES IN THE FUNDS ARE HIGHLY ILLIQUID. AS SUCH, AN INVESTMENT IN THE FUNDS SHOULD ONLY BE UNDERTAKEN BY INVESTORS CAPABLE OF (i) EVALUATING THE RISKS ASSOCIATED WITH SUCH INVESTMENT, (ii) BEARING THE LOSS OF PART OR ALL OF THEIR INVESTMENT CAPITAL, AND/OR (iii) BEARING THE ILLIQUIDITY OF SHARES OR INTERESTS IN A FUND FOR AN UNFORESEEABLE PERIOD OF TIME.

AN INVESTOR WHO SUBSCRIBES FOR AN INVESTMENT IN THE FUNDS WILL ALSO BE SUBJECT TO A NUMBER OF INVESTMENT, STRUCTURAL, OPERATIONAL AND TAX RISKS, INCLUDING WITHOUT LIMITATION RISKS RELATING TO:

- THE OPERATIONS AND PERFORMANCE OF UNDERLYING LENDING SOURCES
- THE UNSECURED NATURE OF SOME CREDIT INVESTMENTS
- THE POTENTIAL FOR DEFAULTS OF CREDIT INVESTMENTS
- POOR OR SUBPRIME CREDIT RATINGS WITH RESPECT TO CERTAIN BORROWERS ASSOCIATED WITH CREDIT INVESTMENTS
- THE ILLIQUIDITY OF BOTH CREDIT INVESTMENTS AND THE FUNDS
- ADVERSE MARKET CONDITIONS
- SECURITY SELECTION
- THE PARTNERSHIP’S OR PROSPECTUS’ TERMS
- DOMESTIC TAX TREATMENT OF UNDERLYING DEBT INSTRUMENTS.

THE RISKS PRESENTED HEREIN ARE NOT A COMPLETE LIST OF RISKS ASSOCIATED WITH AN INVESTMENT IN THE FUNDS. DETAILED DISCLOSURES OF SUCH RISKS, OTHER RISKS AND CONFLICTS OF INTEREST INHERENT TO THE FUNDS MAY BE FOUND IN THE PRIVATE FUND’S PRIVATE PLACEMENT MEMORANDUM, THE RDLF’S PROSPECTUS OR, AS APPLICABLE, AN INVESTMENT MANAGEMENT AGREEMENT ON BEHALF OF A SEPARATELY MANAGED ACCOUNT. COPIES OF THE PRIVATE PLACEMENT MEMORANDUM AND PROSPECTUS ARE AVAILABLE UPON REQUEST TO THE FIRM. PROSPECTIVE INVESTORS ARE STRONGLY ENCOURAGED TO REVIEW SUCH RISK DISCLOSURES CAREFULLY, AND CONSULT THEIR INDIVIDUAL FINANCIAL, LEGAL AND TAX ADVISORS.



### Investment Program and/or Portfolio Investment Selection Process may not be Successful

There can be no assurance that the investment program and/or the Portfolio Investment selection process employed by the Investment Manager will be successful. There is no assurance that the Firm's investment program or proprietary software will function as anticipated, especially during unusual market conditions or conditions that the Investment Manager or such software has not yet encountered. In addition, the Firm's investment methodologies, including with respect to its proprietary software and systems, may be continually revised and evolve. However, no assurances can be given that such revisions will perform as anticipated or desired by the Investment Manager, and as such may have adverse consequences to a private fund.

### Debt Instruments may be Linked to Unsecured Obligations of the Underlying Borrowers

Loans to underlying borrowers ("Underlying Borrowers") may be unsecured, which means that if such Underlying Borrower defaults on his obligations, the ability of the Lending Source or the Funds, to collect any portion of the underlying loan is unlikely. Likewise, Lending Sources charge fees and expenses with respect to the Debt Instruments, including the cost to attempt collection on any Debt Instruments that are in default, thereby reducing the amount that the Funds may recover in the event of a partial or complete collection.

### Illiquidity of Private Fund Interest or Shares and Portfolio Investments

Portfolio Investments do not trade on any secondary market, have terms that may extend up to five years, and should be considered extremely illiquid investments. Although secondary markets are expected to develop over time, no assurances can be given that such expectations will materialize. Likewise, the Private Fund's Limited Private Fund Agreement or Operating Agreement (each a "Private Fund Agreement") includes provisions which allow the Private Fund to redeem investors over the time it takes a Private Fund to accumulate sufficient liquidity by virtue of interest payments, principal payments and subscriber capital. In addition, the Private Fund Agreements contains provisions which allow the Private Funds to place withdrawing investors into a liquidating memorandum account whereby they will receive a *pro rata* portion of the private funds' assets and be paid withdrawal proceeds in accordance with a private fund's ability to liquidate such underlying Portfolio Investments. As such, investors will be directly and indirectly impacted by the illiquidity of the Portfolio Investments, and should not invest in a Private Fund if they are unable or unwilling to bear the long-term time horizon expected with respect to an investment in a Private Fund.

### Security Selection and Market Risk

Security Selection risk is defined as the risk that the Investment Manager may not select and size positions appropriately within the portfolio. The profitability of a significant portion of a private fund's investment program depends largely upon correctly assessing the relationship between the prospective interest and/or default rates of the Debt Instruments. There can be no assurance that the Investment Manager will be able to accurately predict default rates or net interest, nor can assurance be given that a private fund's investment portfolio will generate any income or maintain its value. In constructing the portfolio, the Investment Manager (including through the use of TruSight Technology) relies on historical data, and in some cases, subjective evaluations. However, past performance may not forecast future performance, and there can be no assurances regarding the reliability of the Investment Manager, TruSight Technology or traditional Portfolio Investment selection process in its attempts to construct portfolios with forecast risk that can be achieved. In addition, a private fund's returns are potentially subject to unforeseen economic events or shocks

that are inherently unpredictable and outside the Investment Manager's control. Therefore, a private fund is exposed to risk of loss of capital arising from the unpredictable nature of credit markets. For these reasons, the portfolio may also incur losses, and a prospective investor should not invest in a private fund unless such prospective investor is in an adequate fiscal position to sustain a loss of part or all of his capital account in a private fund.

### Leverage

A private fund may employ substantial amounts of leverage, on behalf of leveraged classes of Limited Private Fund Interests or shares (the "Enhanced Classes"). Although certain Classes of a Private Fund (the "Non-Enhanced Classes") will not participate in the gains and losses attributable to such leverage, Non-Enhanced Classes may be subject to additional risk by virtue of the Enhanced Classes' use of leverage. With respect to any leverage facility or leverage product provided by a financial institution or other third party, the Private Fund will attempt to contractually restrict any right of recourse to the *pro rata* portion of the Private Fund's assets (on an asset by asset basis) attributable to the Enhanced Classes. However, such restriction and segregation on recourse are contractually based and not imposed by statute or applicable law. As such, no assurance can be given that such restrictions or segregations will be upheld or enforced in the manner envisioned by the Firm. In addition, no assurances can be given that a liquidation of assets held by Enhanced Classes will not have extremely adverse consequences to the Non-Enhanced Classes.

### Interest Rates Risk

Debt Instrument yields are susceptible in the short-term to fluctuations in interest rates and, like other forms of fixed income securities (to the extent a secondary market exists), the intrinsic value of a Debt Instrument typically increases when interest rates fall and declines when interest rates rise. The Investment Manager anticipates the inherent and comparative value of Debt Instruments may decline if interest rates rise.

Movements of interest rates also have compounded effects on the maturity of such Debt Instruments. For example, Lending Sources generally do not impose a prepayment penalty on Underlying Borrowers, and may impose a fee on Debt Instrument holders for processing prepayments. As such, declining interest rates incentivizes Underlying Borrowers to prepay and refinance their loans. The Investment Manager will, in such instances, have a reduced likelihood to benefit from the increased intrinsic value or continue enjoying the benefits of comparatively high interest rates when interest rates decline.

Conversely, rising interest rates incentivizes Underlying Borrowers to hold loans through maturity, because the comparative cost of securing a replacement loan increases in comparison to the loan. Thus, the Investment Manager will be forced to either bear the extended duration on Debt Instruments with interest rates less favorable than being offered by the marketplace or sell such Debt Instrument (to the extent a secondary market exists) at a loss of principal.

The Investment Manager does not intend to hedge interest rate risk on behalf of a Private Fund, but may do so at its sole discretion.

### Poor Economic Conditions

Debt Instruments may be particularly susceptible to adverse macro-economic conditions. For example, rising levels of unemployment, reduced economic conditions, or general economic decline may increase the default rates of the Debt Instruments beyond historical precedent or the Investment Manager's expectation. Accurately predicting short or long-term macro-economic

conditions is extremely difficult, and further the Investment Manager will maintain its general investment objectives notwithstanding any changing macro-economic conditions. As such, there may be a significant differential between historical default rates and future default rates, which may lead to material and sustained losses for a Private Fund.

*Investment in Lower-Rated Debt Instruments Issued to Underlying Borrowers with Poor Credit*

The Investment Manager may invest a portion of its assets in Debt Instruments linked to Underlying Borrowers who have low or sub-prime FICO scores (“High Yield Debt Instruments”). Although the Private Funds maintain a default reserve against the higher level of defaults that the Investment Manager may estimate with High Yield Debt Instruments, such estimates are based on historical data that may be limited in scope with respect to certain Lending Sources and prove generally inaccurate with respect to future results of any High Yield Debt Instrument. As such, High Yield Debt Instruments may be considered speculative with respect to the borrower’s continuing ability to make principal and interest payments. High Yield Debt Instruments have a higher risk of default, and as such pose a more significant risk to a Private Fund with respect to the loss of principal and interest. Moreover, High Yield Debt Instruments may have material sensitivity to macro-economic downturns and other factors outside of the Investment Manager’s control. Such macro-economic downturns may be outside of the Investment Manager’s foresight and/or unexpectedly occur during the term of a Debt Instrument.

Some of the High Yield Debt Instruments may be linked to Underlying Borrowers who have “subprime” credit ratings. A “subprime” credit rating is traditionally defined as a FICO score below 640. Most of these Underlying Borrowers are people who have had difficulty obtaining loans from other sources, including banks and other financial institutions, on favorable terms, or on any terms at all, due to credit problems, limited credit histories, adverse financial circumstances, or high debt-to-income ratios.

The Investment Manager expects High Yield Debt Instruments to have a substantial rate of default, but may notwithstanding such default rate significantly if not entirely invest in such High Yield Debt Instruments (some of which may be linked to subprime borrowers) in circumstances where it believes that the relationship between interest rates and default will produce noteworthy returns on a net basis.

However, no assurance can be given that the expected default rates of High Yield Debt Instruments will not materially exceed historical or expected levels, exceed the default reserve set aside by the Investment Manager, thereby materially and negatively impacting a Private Fund and subjecting Investors to significant losses of their capital account.

*Lack of Source Operating History*

Many of the Lending Sources have a limited operating history and track record upon which a Private Fund may base an evaluation of the Lending Sources’ operations or the historical default rates or performance of Debt Instruments or categories of Underlying Borrowers. The Investment Manager is reliant on such historical information to select investment candidates, and no assurances can be given that the amount of data available to the Investment Manager is sufficient for it to evaluate such Debt Instruments in context to market cycles or long-term developments. As such, there can be no assurance that a Private Fund will be able to achieve its investment objectives or that Investors will receive a return on their capital.

### Dependence on Lending Sources for Information

The Investment Manager is reliant on information provided by the Lending Sources in selecting investments for a Private Fund. However, the Investment Manager may be unable to confirm the accuracy, comprehensiveness or quality of the information provided by such Lending Sources. If such information proves to be inaccurate, incomplete or of generally poor quality; and/or if a Lending Source ceases to provide such information, a Private Fund's investment program may be adversely affected. In addition, a Private Fund may be unable to accurately value the Portfolio Investments.

### Valuation; Calculation of Net Asset Value

The valuation of Private Fund assets and liabilities is based on the Investment Manager's policies and procedures (as revised from time to time). There is no reliable liquid market for Portfolio Investments, so the valuations of a Private Fund's pool of Debt Instruments, may be imprecise and subject to inherent conflicts of interest. The Investment Manager's valuation of these assets affects the Management Fees and Performance Fee to which the Investment Manager is entitled. If those valuations are inaccurate, any new Investor and any withdrawing Investor may be adversely affected and the Investment Manager may receive a Management Fee and Performance Fee that is greater (or lesser) than the fees to which it otherwise would be entitled. The Investment Manager may not be able to effectively manage a Private Fund's investment portfolio, diversification and other internal guidelines and risks if a Private Fund's portfolio is inaccurately valued. Any such inaccuracy could affect the Investors adversely.

### Non-U.S. Lending Sources; Foreign Investment

A Private Fund may invest in Debt Instruments issued by Lending Sources organized or based outside the United States. These investments may be subject to a variety of risks and other special considerations not affecting securities of domestic issuers. Such Lending Sources may be subject to less stringent reporting and informational standards, practices and requirements than those applicable to U.S. Lending Sources.

Since foreign lending transactions often are denominated in currencies of foreign countries, a Private Fund may incur currency exchange costs when effecting these transactions, and the value of these securities as measured in U.S. dollars may be affected favorably or unfavorably by subsequent changes in currency rates and exchange control regulations. Currency exchange rates may fluctuate significantly over short or long periods of time. A Private Fund will be permitted, but will not be required, to engage in currency hedging transactions (using forward, futures or option contracts) to protect against adverse changes in currency rates, and it is possible that such hedging transactions could be unsuccessful.

Transactions in foreign countries may involve certain risks not applicable to transaction on U.S. Lending Sources. Moreover, such transactions may be subject to whatever regulatory provisions are applicable to transactions effected outside the U.S., whether on foreign Lending Sources or otherwise. Transactions on foreign Lending Sources involve the additional risks of expropriation, burdensome or confiscatory taxation, moratoriums and investment controls, or political or diplomatic events that might adversely affect a Private Fund's investment activities. A Private Fund's portfolio will therefore be subject to certain additional risks that are not usually associated with similar investments in the U.S. and other industrialized democracies including fluctuation in currency exchange rates, the imposition of control regulations, more limited information about

Lending Sources and their operations, different accounting standards, and sub-standard regulatory environment.

#### Currency and Exchange Rate Risks

A Private Fund may invest in Debt Instruments denominated in currencies other than the U.S. Dollar or in securities that are determined with references to currencies other than the U.S. Dollar. A Private Fund, however, will value its assets in U.S. Dollars. A Private Fund does not currently intend to hedge currencies applicable to its portfolio and therefore the value of a Private Fund's assets will fluctuate with U.S. Dollar exchange rates as well as with price changes of their investments in the various local markets and currencies. Thus, an increase in the value of the U.S. Dollar compared to the other currencies in which a Private Fund may make investments will reduce the effect of increases and magnify the U.S. Dollar equivalent of the effect of decreases in the prices of the Portfolio Investments in their local markets. Conversely, a decrease in the value of the U.S. Dollar will have the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of the non-U.S. Dollar Portfolio Investments.

#### Bankruptcy of Lending Sources

A Private Fund will invest in secured and unsecured Debt Instruments. Those investments are subject to the risks of a Lending Source's bankruptcy. Although, a Private Fund actively seeks Lending Sources that use bankruptcy remote vehicles, a Private Fund may, in the Investment Manager's discretion, invest in Lending Sources that do not employ bankruptcy remote vehicles. To the extent certain Lending Sources that do not employ bankruptcy remote vehicles enter into voluntary or involuntary bankruptcy, a Private Fund may be materially negatively impacted.

#### Insufficient Supply of Investments

A Private Fund depends on a sufficient supply of investments in Debt Instruments, which is outside of the Investment Manager's control. If there is an insufficient supply of investments to meet a Private Fund's demand, a Private Fund likely will limit additional capital-raising efforts. This could lead to a Private Fund being more concentrated in its existing portfolio and cause such Private Fund's expense ratio to be higher than would otherwise be the case. In addition, there can be no assurance that a Private Fund will be able to acquire investments in the quantities and at the times it otherwise desires. In such cases, the Investment Manager may cause a Private Fund to hold extensive cash positions for extended periods of time, potentially adversely affecting such Private Fund's performance.

#### Competition for Investments

A Private Fund will be competing for investment opportunities against other groups, including institutional investors, investment managers, industrial groups and merchant banks owned by larger and well-capitalized investors. The competition for investment opportunities may adversely affect the terms of the investments. Also, such competition may prevent a Private Fund from finding a sufficient number of attractive opportunities to meet its investment objectives.

#### Dependence on Verification of Borrowers

A Private Fund generally depends on the Lending Sources to verify the identity of borrowers, their credit histories, and in some cases, their employment status and income. A Private Fund may not be in a position to monitor those verification procedures and thus is subject to the risk that those procedures are, or over time become, inadequate to prevent negligence or fraud. To the extent that the rate of negligence or fraud increases, a Private Fund could be adversely affected.



## Item 9 – Disciplinary Information

This section requires registered investment advisers and management personnel to disclose all material facts regarding any legal or disciplinary events that would be material to an investors' evaluation of the Firm or the integrity of its management. The Firm and management personnel have no known legal or disciplinary events to disclose.

## Item 10 – Other Financial Industry Activities and Affiliations

Ranger Alternative Management II, LP is affiliated with four investment advisers by virtue of common control and ownership by Ranger Capital Group Holdings, L.P. (“RCGH”). The Firm and each of its investment advisory affiliates mentioned below maintain independent investment teams and processes; and focus on differing investment strategies. RCGH provides operations, accounting, legal, compliance, marketing and investor relations support to Investment Manager and its affiliates.

- Ranger Alternative Management, L.P. serves as a sub adviser to and has day-to-day portfolio management responsibilities with respect to a short only actively managed exchange traded fund known as the Ranger Equity Bear (*ticker symbol: HDGE*). Portfolio investments generally include short sales of domestically traded mid- and large-cap U.S. exchange-traded equity securities.
- Ranger Investment Management, L.P. manages long-only investment portfolios of U.S. exchange traded equity securities of growth oriented companies.
- Ranger International Management, LP manages long-only investment portfolios which consist of (i) global income and growth, and (ii) international equity portfolios.
- Ranger Advisors, L.P. manages fund-of-funds investment portfolios which primarily invest in Ranger affiliated strategies.

All RCGH affiliated investment advisers are registered with the U.S. Securities and Exchange Commission (the “SEC”) in accordance with the Investment Advisers Act of 1940. Registration as an investment adviser does not imply any level of skill or training. Additional information regarding the Firm and its advisory affiliates may be found on-line at [www.rangercap.com](http://www.rangercap.com) or by contacting the Firm at (214) 871-5200.

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

As a fiduciary, the Investment Manager has an affirmative duty to act in the best interests of its investors and to make full and fair disclosure of all material facts, particularly where the Firm's interests may conflict with those of its Investors. The Firm's Code of Conduct and Code of Ethics (the “Codes”) serve as behavioral benchmarks from which the Firm's compliance program is built. Briefly, the Codes require each Ranger employee to act with integrity, competence, diligence, respect, and in an ethical manner when dealing with current and prospective clients, the Firm, other employees, colleagues in the investment profession, and other participants in the global capital markets. Employees are expected to place the interests of clients and the Firm above their own personal interest and to avoid any actual or potential conflicts of interest. In addition, the Firm's Code of Ethics requires, among other things, that all employees to comply with applicable

provisions of the federal securities laws and to promptly report any potential violations of the Firm's compliance policies and procedures to the Chief Compliance Officer (the "CCO").

#### Personal Trading Policy

The Firm has implemented a personal trading policy which prohibits employees from purchasing securities (as defined below) which the Firm may invest in for the benefit of its clients. Employees may continue to hold investments initiated prior to the adoption of the policy or their employment with the firm, and may sell such securities only after all anticipated clients' purchases or sales of such securities are completed, if any. In addition, the Firm may require employees to receive pre-clearance from the CCO by submitting a written request prior to the sale of individual securities transactions. While investment in a Ranger direct lending investment vehicle is encouraged, employees are prohibited from investing directly in loans, notes or other Debt Instruments from any Lending Source. Employees may invest in equities, bonds, pooled investment vehicles, ETFs, Closed End Mutual Funds and SEC exempt securities, such as open-end mutual funds, certain U.S. government securities and cash equivalents. Pre-clearance and reporting requirements vary for these investments. The Firm's personal trading policy requires employees to provide the CCO with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

In addition to personal trading activities, other policies and procedures found in the Code of Ethics provide guidelines the Firm and/or employees follow with respect to:

- Insider Trading
- Outside Business Activities
- Political Contributions
- Gifts and Entertainment

A copy of the Firm's Code of Ethics is available to current or prospective clients upon written request to [info@rangercap.com](mailto:info@rangercap.com).

#### **Item 12 –Brokerage Practices**

Generally, the Firm has complete discretion over the selection and amount of securities to be bought or sold for investor accounts without obtaining their consent or approval (within the parameters established by the private placement memorandum, prospectus or investment management agreement).

The Firm may at any time, employ the use of swaps, derivatives and other over the counter investment products used to gain or hedge exposures (together with the Portfolio Investments, the "Underlying Securities"). Underlying Securities are not publicly traded securities, and as such the Firm (i) does not select broker-dealers for the purchase and sale of securities for its Clients, (ii) does not receive research or other products or services from a broker-dealer or a third party in connection with Client securities transactions, (iii) does not receive or employ any "soft dollar" based benefits attributable to Client securities transactions, and (iv) does not permit a Client to direct brokerage.



## Item 13 – Review of Accounts

Each Client account will be reviewed and valued on a daily, weekly or monthly basis, as deemed appropriate by the Firm. The Firm's Portfolio Manager will review each account in a manner consistent with the investment goals of each Client. Under the supervision of the Chief Financial Officer, members of the Firm's accounting staff will review the accounts' valuation, including net asset value calculations, principal and interest accrual calculations, and cash balance reports from applicable Lending Sources and/or the Firm's administrator.

The Firm and the Funds' administrator will assist the Funds in preparing written reports to Investors on at least a quarterly basis. Such quarterly reports include unaudited financial information to investors.

## Item 14 – Client Referrals and Other Compensation

The Firm may enter into written agreements with an affiliated or unaffiliated marketing group or individuals that will solicit investors on behalf of the Funds. As compensation for their solicitation services, such marketing groups or individuals may receive a percentage of the Firm's Management Fee and/or Performance Fees as attributable to such Fund. The fees paid to a marketing groups or individuals are not charged back to the Clients or Investors who have been solicited by these groups or individuals. Clients and/or Investors pay the same fees to the Firm as they would have had they not been referred by such marketing groups or individuals.

The Firm's arrangements with an affiliated or unaffiliated marketing group or individuals may result in a potential conflict of interest by creating an incentive for the marketing group to recommend the Firm's investment advisory products and services based on compensation received rather than the investor's needs. The Firm has implemented procedures to ensure compensation arrangements with an affiliated or unaffiliated third-party for client or investor referrals will comply with Rule 206(4)-3 under the Adviser's Act. The Firm pays a referral fee with respect to any one Investor and the Firm will provide disclosure to said Investor prior to subscription date of such investor.

## Item 15 – Custody

The Firm does not take possession of investor funds or securities. However the Firm serves as a General Partner with full discretion over the portfolios of a Private Funds it advises. As a result, the Firm is considered to have indirect access to the funds and securities of limited partners in its Private Funds. Pursuant to Rule 206(4)-2 of the Investment Advisers Act of 1940, the Firm is considered to have custody of these assets.

Accordingly, the Firm implements certain policies and procedures which seek to safeguard Investor assets in a Private Fund. The Firm must also comply with additional bookkeeping, audit and disclosure requirements, which includes providing Investors in a Private Fund with audited financial statements on an annual basis.

***The Firm strongly encourages Investors to closely monitor their account statements, audited financial statements, disclosure documents and important investment related materials they receive from the Firm. Any potential discrepancies should be promptly brought to the Firm's attention by contacting (214) 871-5251.***

## **Item 16 – Investment Discretion**

In general, the Firm has complete discretion over the selection and amount of securities to be bought or sold without obtaining consent or approval from Clients or Investors (within the parameters established by each Private Funds' Private Placement Memorandum and RDLF's Prospectus). Discretionary authority only occurs upon full disclosure to the Client or Investor and authorization by such Client or Investor pursuant to the Operative Documents and subscription agreement of a Private Funds, the prospectus of the RDLF or the investment management agreement of a Separate Account. Trades or transactions made by the Firm on behalf of Client accounts for which it has discretion will be in accordance with each Fund's investment objectives and goals.

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

Generally, the Firm does not invest in securities which solicit proxies. However, to the extent the Firm does receive a proxy ballot, the Firm would seek to vote such proxy in the interest of maximizing shareholder value. To that end, the Firm would vote proxies in the manner it believes is consistent with its fiduciary duty. It is the Firm's policy to review each proxy statement on a case-by-case basis and give consideration to both the short and long term implications of each proposal in which it votes.

The Firm's written proxy voting policies are set forth in the paragraph immediately above. In addition, the Firm will maintain a record of all proxy votes cast on behalf of Clients; such records, if any, will be available for review by the Client upon written request.

## **Item 18 – Financial Information**

Ranger has no known financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients. In addition, the Firm has never been the subject of a bankruptcy petition.