

## Item 1 - Cover Page



### ADVISER BROCHURE

Form ADV Part 2A

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

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March 31, 2017

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, 2017, which replaces the Brochure dated March 31, 2016. 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 4 – Advisory Business** was amended to provide additional information on the Firm's investment program.
2. **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss** was amended to add reference to general conflicts of interest and update the disclosures of risk
3. **Item 14 – Client Referrals and Other Compensation** was amended to provide additional information on the use of underwriters, investment banks and service providers with respect to issuances of securities by the Ranger Direct Lending Fund.
4. 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 February 28, 2017, 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; and the Firm does not currently offer advisory services through separately managed accounts.

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 closed ended fund 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 Fund.

Fund portfolios primarily, but not exclusively, invest in debt instruments (the “Debt Instruments” or “Portfolio Investments”) offered by or issued to a variety of domestic and international loan originators (the “Lending Platforms”) that may either serve as debtors with respect to a loan agreement or serve as intermediaries between lenders and borrowers. Portfolio Investments may be undertaken in a variety of investment categories, including without limitation, 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.

A Lending Platform can structure exposure to Debt Instruments in a variety of ways, including without limitation, by (i) securitizing underlying loans and offering fractionalized or whole loan interests to prospective lenders, (ii) entering into promissory notes with prospective lenders, wherein the return of interest and principal is directly linked to the performance of one or more underlying loans, (iii) entering into promissory notes with prospective lenders whereby the rate of

return to such prospective lender is fixed, and such promissory note is collateralized by a pool of underlying loans, (iv) offering participation interests in the Debt Instruments, (v) directly selling such Debt Instruments to prospective lenders (or purchasers), or (vi) providing exposure through an interest in a pooled investment vehicle.

Lending Platforms or their affiliate often serve as a servicing agent to a prospective lender or with respect to a portfolio of Debt Instruments, provide administration services with respect to underlying loans and/or bundle or prescreen loans. The Lending Platforms or their affiliates may be entitled to various forms of compensation for such services, including without limitation: an administrative or management fee; a loan servicing fee, and; on certain occasions, a performance fee. Lending Platform fees reduce the rate of return associated with an investment in applicable Debt Instruments; and are deemed an indirect expense of the Funds. A breakdown of Lending Platform fees charged by each of the Funds' investments is available, upon request to the General Partner.

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, to the extent the Firm offers separately managed accounts on a future date, the applicable investment advisory 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 ("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 underlying 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 Platforms (the "Lending Platforms"). 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 Platform 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 Platforms. 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 Platforms, 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 Platforms 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 Platforms primarily based upon the underwriting rules and classifications used by the Lending Platform in conjunction with due diligence performed by the Firm’s investment team members. If the Lending Platform 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 PLATFORMS
- 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 PROSPETCUS' 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, TO THE EXTENT SEPERATELY MANAGED ACCOUNTS ARE OFFERED BY THE FIRM ON A FUTURE DATE, AN INVESTMENT ADVISORY AGREEMENT. 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 in the Interest is a risky investment for suitable investors only. Portfolio Investments are risky and speculative investments. Portfolio Investments are generally dependent for payment on a Lending Platform's receipt of payments under the corresponding underlying loans (the "Underlying Loans"). Likewise, Portfolio Investments may be of high yield or undetermined credit quality. The Portfolio Investments are therefore speculative and bear a high degree of risk. Likewise, the Partnership's assets are primarily if not entirely invested in the Portfolio Investments; and therefore, an investment in a Fund is a speculative and risky investment. Investments in a Fund are suitable only for prospective Investors who can bear the risk of losing the entirety of their investment. If a prospective Investor cannot afford to lose the entire amount of its investment in a Fund, it should not invest in the Fund.

*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 Firm 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 Firm 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 Firm, and as such may have adverse consequences to a 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 Platform or the Funds, to collect any portion of the underlying loan is unlikely. Likewise, Lending Platforms 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 Partnership Agreement or Operating Agreement (each a "Private Fund Agreement") includes provisions which allow such 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 contain 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 Firm 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 Firm 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 Firm (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 Firm, 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 Firm'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*

The Funds 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 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 Funds 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 Firm 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 Platforms 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 Firm 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 Firm 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 Firm 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 Firm's expectation. Accurately predicting short or long-term macro-economic conditions is extremely difficult, and further the Firm 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 Fund.

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

The Firm may invest a portion of Fund assets in Debt Instruments linked to Underlying Borrowers who have low or sub-prime FICO scores ("High Yield Debt Instruments"). Although the Funds maintain a default reserve against the higher level of defaults that the Firm 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 Platforms 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 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 Firm's control. Such macro-economic downturns may be outside of the Firm'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 Firm 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 Firm, thereby materially and negatively impacting a Fund and subjecting Investors to significant losses of their capital account.

#### Lack of Source Operating History

Many of the Lending Platforms have a limited operating history and track record upon which a Fund may base an evaluation of the Lending Platforms' operations or the historical default rates or performance of Debt Instruments or categories of Underlying Borrowers. The Firm is reliant on such historical information to select investment candidates, and no assurances can be given that the amount of data available to the Firm 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 Fund will be able to achieve its investment objectives or that Investors will receive a return on their capital.

#### Dependence on Lending Platforms for Information

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

#### Valuation; Calculation of Net Asset Value

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

other internal guidelines and risks if a Fund's portfolio is inaccurately valued. Any such inaccuracy could affect the Investors adversely.

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

A Fund may invest in Debt Instruments issued by Lending Platforms 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 Platforms may be subject to less stringent reporting and informational standards, practices and requirements than those applicable to U.S. Lending Platforms.

Since foreign lending transactions often are denominated in currencies of foreign countries, a 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 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 Platforms. Moreover, such transactions may be subject to whatever regulatory provisions are applicable to transactions effected outside the U.S., whether on foreign Lending Platforms or otherwise. Transactions on foreign Lending Platforms involve the additional risks of expropriation, burdensome or confiscatory taxation, moratoriums and investment controls, or political or diplomatic events that might adversely affect a Fund's investment activities. A 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 Platforms and their operations, different accounting standards, and sub-standard regulatory environment.

#### Currency and Exchange Rate Risks

A 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. Each 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.

Derivative Contracts. The Firm may employ derivative contracts on behalf of a Fund's portfolio or hedge exposures. However, a Fund may, but is not required to, utilize various other instruments to seek a hedge against the risk of changes in the credit markets. These hedging strategies may be executed through the use of futures contracts or options thereon, standardized or individually



negotiated over-the-counter contracts or other forms of option contracts (collectively, “derivative contracts”).

Derivative contracts have risks associated with them including possible default by the other party to the transaction, illiquidity and, to the extent the Firm’s view as to certain market movements are incorrect, the risk that the use of such derivative contracts could result in losses greater than if they had not been used. Moreover, the lack of complete correlation between price movements of derivative contracts and price movements in the portfolio position of a Fund creates the possibility that losses in the value of a Fund’s position may be greater than the gain on the hedging instrument (or that a gain in a Fund’s portfolio position may be less than the loss on the hedging instrument). In addition, futures and options markets may not be liquid in all circumstances and certain over-the-counter derivative contracts may have no markets. As a result, in certain markets, a Fund might not be able to close out a transaction without incurring substantial losses, if at all. Although the successful use of derivative contracts for hedging should tend to reduce the risk of loss due to a decline in the value of the hedged position, at the same time such transactions would tend to limit any potential gain which might result from an increase in value of such position.

A Fund may also invest in the over-the-counter market in contracts which involve dealing with counterparties and their ability to meet the terms of the contracts. In particular, a Fund may enter into repurchase agreements, forward contracts and swap arrangements, each of which expose a Fund to credit risk to the extent that the counterparty defaults on its obligations to perform under the relevant contract.

#### *Bankruptcy of Lending Platforms*

The Funds will invest in secured and unsecured Debt Instruments. Those investments are subject to the risks of a Lending Platform’s bankruptcy. Although, a Fund actively seeks Lending Platforms that use bankruptcy remote vehicles, a Fund may, in the Firm’s discretion, invest in Lending Platforms that do not employ bankruptcy remote vehicles. To the extent certain Lending Platforms that do not employ bankruptcy remote vehicles enter into voluntary or involuntary bankruptcy, a Fund may be materially negatively impacted.

#### *Insufficient Supply of Investments*

A Fund depends on a sufficient supply of investments in Debt Instruments, which is outside of the Firm’s control. If there is an insufficient supply of investments to meet a Fund’s demand, a Fund likely will limit additional capital-raising efforts. This could lead to a 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 Firm 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*

The Funds will be competing for investment opportunities against other groups, including institutional investors, Firms, 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

Each Fund generally depends on the Lending Platforms to verify the identity of borrowers, their credit histories, and in some cases, their employment status and income. A 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.

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

Illiquidity of Private Fund Interest or Share and Debt Instruments. Debt Instruments do not trade on any secondary market, have terms that may extend up to five years or in certain circumstances, longer, 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, each Private Fund's operating agreement includes provisions which allow a Fund to redeem investors over the time it takes such Private Fund to collect sufficient liquidity by virtue of interest payments, principal payments and subscriber capital. In addition, each Fund's operating agreement contains provisions which allow such Private Fund to segregate new subscribers from pre-existing investors (thereby possibly increasing concentration and illiquidity) and place withdrawing Investors into a liquidating memorandum account whereby they will receive a pro-rata portion of a Fund's assets and be paid withdrawal proceeds in accordance with a Fund's ability to liquidate such underlying assets. As such, Investors will be directly and indirectly impacted by the illiquidity of the Debt Instruments, and should not invest in a Private Fund if they are unable or unwilling to bear the long-term time horizon expected with an investment in the Debt Instruments or a Private Fund. **PURSUANT TO THE WITHDRAWAL TERMS OF A PRIVATE FUND, PROSPECTIVE LIMITED PARTNERS ARE ADVISED THAT THEIR LIMITED PARTNERSHIP INTEREST MAY BE RESTRICTED FROM WITHDRAWAL FOR A SUBSTANTIAL PERIOD OF TIME, WHICH MAY EXCEED THE AVERAGE TERM OF A DEBT INSTRUMENT. PROSPECTIVE INVESTORS WHO ARE NOT ABLE TO BEAR THE RISK OR TIME FRAME ASSOCIATED WITH AN ILLIQUID INVESTMENT SHOULD NOT SUBSCRIBE FOR AN INTEREST OR SHARES IN A PRIVATE FUND. PROSPECTIVE INVESTORS ARE ENCOURAGED TO REVIEW THE TERMS OF WITHDRAWAL OR REDEMPTION CAREFULLY AND CONTACT THE FIRM WITH ANY QUESTIONS.**

Absence of Regulation Concerning Debt Instruments and Lending Platforms. The Lending Platforms and the Debt Instruments will be subject to varying levels of regulation. Debt Instruments are not registered as securities under the Securities Act of 1933, as amended, with the consequence that many of the protections afforded to investors by those laws will not be applicable. Similarly, certain investments in Debt Instruments, whether Lending Platforms operating domestically or in foreign jurisdictions, may not be subject to comprehensive government regulation.



Changes in Policies; Transparency; and Fraud. While the Firm generally reviews the policies and procedures of the Lending Platforms, there can be no assurances that the Lending Platforms will continue to adhere to such investment and risk management strategies. The Firm has differing levels of transparency with respect to Debt Instruments issued by various Lending Platforms, and no assurances can be given that the Firm will detect changes in a Lending Platform's policies and procedures. Moreover, the possibility exists that information provided directly to a Lending Platform, and indirectly to the Firm, or information directly from the Lending Platform provided directly to the Firm, may be negligently or fraudulently conveyed. In such event, a Fund may be unknowingly exposed to substantial risk while investing in unsuitable Debt Instruments and/or fraudulent behavior or information imitating by the Lending Platform.

Dependence on TruSight Technology. The Firm has developed the TruSight Technology, proprietary software that uses genetic programming to provide portfolio management and Debt Instrument selection functions to a Fund. The Firm may be reliant on the TruSight Technology and its expected function. In the event the Firm's is unable to use the TruSight Technology in its intended manner, such inability may pose significant impact to the Firm's investment program and Debt Instrument selection process. Specific risks may include (i) the risk that the TruSight Technology may malfunction, due to programming, development, operational or other errors by the Firm or third parties, (ii) the risk that the Firm's is unable to employ the TruSight Technology due to successful or pending legal claims by third parties that the TruSight Technology infringes on third party intellectual property, (iii) the risk that the TruSight Technology does not function as desired or anticipated by the Firm, (iv) the risk that the TruSight Technology does not evolve and/or is not correctly developed to function within changing operational conditions of the Lending Platforms, thereby rendering the TruSight Technology obsolete, (v) the loss of key programming and development personnel, such that future developments or maintenance of the TruSight Technology or other unforeseen risks relating to the development, use, or obsolescence of the TruSight Technology which would render the Firm's investment and trading program materially disadvantaged with respect to the its objectives and goals.

Lack of Platform Operating History. Many of the Lending Platforms have a limited operating history and track record upon which a Fund may base an evaluation of the Lending Platforms' operations or the historical default rates or performance of Debt Instruments or categories of Underlying Borrowers. The Firm is reliant on such historical information to select investment candidates and/or develop default reserve calculations used to appropriately value Debt Instruments, and no assurances can be given that the amount of data available to the Firm 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 Fund will be able to achieve its investment objectives, that Partners will receive a return on their capital, or that the Firm will be able to appropriately value the applicable Debt Instruments.

Valuation; Calculation of Net Asset Value. The valuation of Partnership assets and liabilities is based on the Firm's policies and procedures (as revised from time to time). There is no reliable liquid market for Portfolio Investments, so the valuations of a Fund's pool of Debt Instruments, may be imprecise and subject to inherent conflicts of interest. The Firm's valuation of these assets affects the Management Fees and Performance Fee to which the Firm is entitled. If those valuations are inaccurate, any new Limited Partner and any withdrawing Limited Partner may be adversely

affected and the Firm may receive a Management Fee and Performance Fee that is greater (or lesser) than the fees to which it otherwise would be entitled. The Firm may not be able to effectively manage a Fund's investment portfolio, diversification and other internal guidelines and risks if a Fund's portfolio is inaccurately valued. Any such inaccuracy could affect the Limited Partners adversely.

Non-U.S. Lending Platforms; Foreign Investment. A Fund may invest in Debt Instruments issued by Lending Platforms 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 Platforms may be subject to less stringent reporting and informational standards, practices and requirements than those applicable to U.S. Lending Platforms.

Since foreign lending transactions often are denominated in currencies of foreign countries, a 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 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 United States Lending Platforms. Moreover, such transactions may be subject to whatever regulatory provisions are applicable to transactions effected outside the United States, whether on foreign Lending Platforms or otherwise. Transactions on foreign Lending Platforms involve the additional risks of expropriation, burdensome or confiscatory taxation, moratoriums and investment controls, or political or diplomatic events that might adversely affect a Fund's investment activities. A 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 Platforms and their operations, different accounting standards, and sub-standard regulatory environment.

Currency and Exchange Rate Risks. A 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 Fund, however, will value its assets in U.S. Dollars. A Fund does not currently intend to hedge currencies applicable to its portfolio and therefore the value of a 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 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.

Discretion and Changes in Investment Strategy. The Firm may have considerable discretion in choosing the Portfolio Investment that will be acquired and may have the right to modify the

selection criteria used by such Fund without the consent of the Investors. Any of these trading techniques or analytical models may have operational or theoretical shortcomings, which could result in unsuccessful transactions and, ultimately, losses to a Fund. In addition, any new investment strategy implemented may be more speculative than earlier techniques and may increase the risk of an investment in a Fund.

Investment in Aggregated Pool of Investments; Exposure to Wide Variance in Risk Environments. Any Investor will be investing in a pro-rata share of the existing Debt Instruments that a Fund holds directly and indirectly. Thus, an Investor will have exposure to Debt Instruments acquired when market conditions and perceived or actual risks as well as default rates may have been significantly different from the risks as of such Limited Partner's investment in a Fund. If the Firm's valuations of the Debt Instruments on the date of any such investment are inaccurate, the Limited Partners could be adversely affected.

Dependence on Lending Platforms. A Fund is extremely dependent on the Lending Platforms in pursuing its investment objectives. If a material number of Lending Platforms were to cease or materially alter their operations, become bankrupt, liquidate or otherwise cease originating the Debt Instruments, a Fund may be materially impacted. Likewise, a Fund is dependent on the Lending Platforms' continued ability to manage their operations and reduce risk to the holders of Debt Instrument. For example, a Lending Platform may be vulnerable to network issues, technological failure, cyber-attacks, physical or electronic break ins and other vulnerabilities that may impact either its operations or the security of a Debt Instrument holder's investment. In the event that a Lending Platform is unable to effectively manage such vulnerabilities, a Fund as a Debt Instrument holder, could be severely impacted, including without limitation, with respect to such Lending Platform's ability to offer additional Debt Instruments, manage existing Debt Instruments, collect amounts due from Underlying Borrowers, or protect a Fund's sensitive information.

Bankruptcy of Lending Platforms. Each Fund will invest in secured and unsecured Debt Instruments. Those investments may be subject to the risks of a Lending Platform's bankruptcy. Although, each Fund actively seeks Lending Platforms that use bankruptcy remote vehicles, a Fund may, in the Firm's discretion, invest in Lending Platforms that do not employ bankruptcy remote vehicles. To the extent certain Lending Platforms that do not employ bankruptcy remote vehicles enter into voluntary or involuntary bankruptcy, a Fund may be materially negatively impacted.

Competition for Investments. Each Fund will be competing for investment opportunities against other groups, including institutional investors, Firms, 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 Fund from finding a sufficient number of attractive opportunities to meet its investment objectives.

Dependence on Verification of Borrowers. A Fund generally depends on the Lending Platforms to verify the identity of borrowers, their credit histories, and in some cases, their employment status and income. A 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 Fund could be adversely

affected.

Risk of Default by Counterparties, Brokers and Exchanges. The Funds will be exposed to the credit risk of the counterparties, or the banks, brokers, dealers and exchanges through which it deals with respect to the use of leverage or currency hedging. A Fund may be subject to risk of loss of its assets on deposit with a bank or broker in the event of that bank or broker's bankruptcy. In the case of any such bankruptcy, a Fund might recover, even in respect of property specifically traceable to a Fund, only a pro-rata share of all property available for distribution to all of such broker or dealer's customers.

The Funds may effect transactions in "over-the-counter" or "interdealer" markets. Participants in these markets typically are not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. To the extent a Fund invests in swaps, derivatives or synthetic instruments, or other over-the-counter transactions in these markets, a Fund may take a credit risk with regard to parties with which it trades and also may bear the risk of settlement default. These risks may differ materially from those involved in exchange-traded transactions, which generally are characterized by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from these protections, which in turn may subject a Fund to the risk that a counterparty will not settle in accordance with agreed terms and conditions because of a dispute over the terms of the contract or because of a credit or liquidity problem. Such "counterparty risk" is increased for contracts with longer maturities when events may intervene to prevent settlement. The ability of a Fund to transact business with any one or any number of counterparties, the lack of any independent evaluation of the counterparties or their financial capabilities, and the absence of a regulated market to facilitate settlement, may increase the potential for losses to a Fund.

Transaction Errors by the Firm. The Firm places orders for the purchase and sale of Debt Instruments or other securities with the Lending Platforms or brokers on behalf of a Fund. The transaction process is complex and can vary for different types of Portfolio Investment. Moreover, the Firm may be required to break up orders, or may buy or sell the same Debt Instrument or security for more than one client, further complicating the transaction process. The Firm might make or cause errors in transactions, including due to a failure in the TruSight Technology.

Complexity. The Firm's systems and operations are dynamic and complex. Certain of its operations interface with and depend on systems operated by third parties, including custodians, brokers, administrators, market counterparties and other service providers, and the Firm may not be able to quantify the risks or verify the reliability of such third party systems. Certain operational risks may be intrinsic to the Firm's operations and may impact its financial, accounting or data processing or other systems, especially given the volume, diversity and complexity of the Firm's transactions. Periods of market dislocation or abrupt regulatory change may exacerbate operational risk. The failure of one or more systems or operations or the inability of those systems or operations to meet a Fund's evolving demands could have a materially adverse effect on a Fund.

Risk of Asset Growth. If the assets that the Firm and its Affiliates manage grow significantly, it may adversely affect a Fund's investment performance as such a significant capital inflow may be greater than the Firm's ability to deploy such assets, resulting in a significant cash position and

“cash drag” on a Fund’s investment performance. It may become more difficult to find attractive investment opportunities as the amount of assets that the Firm must invest increases. In addition, with greater assets to invest, it will be increasingly difficult for a Fund to make investments large enough to be meaningful to its overall portfolios.

Risk of Status as a Lender. If a state regulator took the position that a Lending Platform or a Fund were the actual providers of loans to a platform’s borrower-members, a state regulator in certain circumstances could pursue legal and regulatory action against a Fund. In addition, state regulators could pursue claims against a Fund for violations of state usury laws based on the terms of the underlying loans to borrowers, which, in some cases, can result in treble damages and criminal liability. If a state regulator were to pursue action against a Fund as an unlicensed lender, a Fund could incur significant monetary liability, be subject to extensive claims and litigation and Investors could lose their entire investment.

Tax Considerations. Funds may take positions with respect to certain tax issues which depend on legal conclusions not yet resolved by the courts. Should any such positions be successfully challenged by a taxing authority, an Investor might be found to have a different tax liability for that year than that reported on its income tax return.

Original Issue Discounts. Certain Lending Platforms may treat the Debt Instruments as debt instruments that have original issue discount (“OID”) for U.S. federal income tax purposes. Given that the Private Funds will have an accrual method tax-basis, an Investor may be required to include OID currently as ordinary interest income for U.S. federal income tax purposes (which may be in advance of interest payments on the Debt Instrument).

Tax Efficiency. **A SUBSCRIPTION IN A PRIVATE FUND MAY RESULT IN MATERIAL TAX INEFFICIENCIES FOR AN INVESTOR WHO IS SUBJECT TO U.S. FEDERAL OR STATE TAX.** The passive investment income realized from the Debt Instruments in the Private Funds’ portfolio is primarily comprised of interest income, and therefore is taxable as ordinary income and subject to ordinary income tax rates. Debt Instruments held by a Private Fund portfolio that default or otherwise lose the entirety of their value would only entitle an Investor to deduct such loss as a capital loss, for the period in which it ceases to perform. Capital losses generally may be deducted only to the extent of capital gains, except for non-corporate taxpayers who are allowed to deduct \$3,000 of excess capital losses per year against ordinary income. As such, capital losses in the portfolio will not necessarily offset passive income in the portfolio, resulting in potentially substantial tax inefficiency for Limited Partners who are subject to federal or state taxes.

The taxation of partnerships and partners is complex. Potential Investors are strongly urged to consult their own tax advisors.

### Conflicts of Interest

The Firm is subject to potential conflicts of interest which are common to the investment industry and unique to the Firm and its Client base. Included below are examples of material conflicts of interest the Firm seeks to mitigate through the effective implementation of various operations and compliance related policies and procedures.



### Managing Multiple Client Accounts - Transaction Allocation

The Firm manages and expects to continue to manage other client accounts or funds which may have similar investment objectives and policies. Generally, the Firm has discretionary authority over the investment Portfolios for which it manages on behalf of clients. When managing multiple Client accounts with similar investment objectives, circumstances may arise where investment opportunities which are suitable for multiple Client accounts.

The Firm seeks to address this potential conflicts of interest by allocating investment opportunities in a fair and unbiased manner. The basis of allocation between multiple Client accounts managed by the Firm with similar Investment objectives with respect to available investment opportunities under the Platform Agreements is as follows:

- for Debt Instruments where the acquisition can be split between entities (such as Debt Instruments acquired from the invoice factoring or MCA Lending Platforms), such Debt Instruments will be allocated on a pro rata basis with respect to the amount of deployable capital among the various Client accounts; and
- for Debt Instruments where the acquisition cannot be split between entities (such as Debt Instruments acquired from the SME or equipment Lending Platforms), said Debt Instruments will be allocated on a rotating dally basis, as applicable, such that each Client account managed by the Firm is given priority to such Debt Instruments for one day and not the next. For example, if one entity has only 10 per cent, of the capital to invest as another entity, then the first investments for that entity will only take place on one day out of ten.

### Performance Base Fees

Generally, fair and equitable allocation of investment opportunities is used to mitigate favoring Client accounts with performance based fees over Client accounts that are only charged a management fee. While fees achieved by Investors may vary significantly, all Funds managed by the Firm charge a performance based fee.

### Personal Trading

Potential conflicts may arise with respect to employees' personal trading activities in relation to trading on behalf of the Client accounts. An employee cherry picking Debt Instruments that would be suitable for Client accounts is a conflict of interest. To mitigate this conflict, the Firm prohibits employees from investing in Debt Instruments generated by peer-to-peer and direct Lending Platforms. While not allowed to invest in individual Debt Instruments, employees are encourage to invest in Ranger Funds. The Firm believes this aligns employee interests with other Investors in the Funds. Additional information regarding the Firm's Personal Trading Policy may be found in **Item 11 – Code of Ethics**.

## **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 the Firm 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 Firm 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 Platform. 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 Platforms 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.

Notwithstanding the above, Ranger Direct Lending Fund, plc and/or the Firm may engage underwriters or investment banks to place public issuances of securities or consult on either share or capital placement. Depending on the circumstances, such fees may be paid by the Firm or if approved by the independent Board of Directors, by the Ranger Direct Lending Fund. Issuances of shares in the Ranger Direct Lending Fund are neither offered to nor available for investment by United States residents or citizens.

The Firm does not currently offer separately managed accounts. However, compensation arrangements with an affiliated or unaffiliated third-party for client or investor referrals with respect to separately managed accounts are subject to Rule 206(4)-3 under the Adviser's Act, which among other requirements, requires disclosure of any solicitation payments. As such, to the extent the Firm pays a referral fee with respect to any separately managed account, the Firm or the Firm's placement agent will provide disclosure to said Investor prior to subscription date of such investor.

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.

### **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. The firm will 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.

To the extent applicable, 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.