

## **Form ADV Part 2A**

**BlueMountain CLO Management, LLC**  
**280 Park Avenue, 12<sup>th</sup> Floor**  
**New York, NY 10017**  
**Tel: 212-905-3900**

**April 2017**

This Form ADV Part 2A (the “Brochure”) provides information about the qualifications and business practices of BlueMountain CLO Management, LLC (“BMCLO”). If you have any questions about the contents of this Brochure, please contact Eric Albert, Chief Compliance Officer, at 212-905-3900. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about BMCLO also is 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 any persons affiliated with BMCLO who are registered, or are required to be registered, as investment adviser representatives of BMCLO.

## **Item 2 – Material Changes**

**If you are amending your *brochure* for your annual update and it contains material changes from your last annual update, identify and discuss those changes on the cover page of the *brochure* or on the page immediately following the cover page, or as a separate document accompanying the *brochure*. You must state clearly that you are discussing only material changes since the last annual update of your *brochure*, and you must provide the date of the last annual update of your *brochure*.**

BMCLO filed its initial Part 2A of Form ADV in March 2017. This update to Part 2A of Form ADV is being filed subsequent to the initial filing, also in March 2017, to reflect the commencement of BMCLO's advisory business (which occurred as the result of the spin-out of BlueMountain Capital Management, LLC's ("BMCM") collateralized loan obligation advisory business). BMCLO serves as collateral manager of certain collateral loan obligations (each, a "CLO") which were previously managed by BMCM.

### Item 3 – Table of Contents

1 – Cover Page .....	1
2 – Material Changes .....	2
3 – Table of Contents .....	3
4 – Advisory Business .....	4
5 – Fees and Compensation .....	6
6 – Performance-Based Fees and Side-by-Side Management .....	9
7 – Types of Clients .....	11
8 – Methods of Analysis, Investment Strategies, and Risk of Loss .....	12
9 – Disciplinary Information.....	26
10 – Other Financial Industry Activities and Affiliations.....	27
11 – Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading .....	29
12 – Brokerage Practices .....	33
13 – Review of Accounts.....	36
14 – Client Referrals and other Compensation .....	37
15 – Custody .....	38
16 – Investment Discretion .....	39
17 – Voting Client Securities .....	40
18 – Financial Information.....	41

## **Item 4 – Advisory Business**

### **A. Describe your advisory firm, including how long you have been in business. Identify your principal owner(s).**

BMCLO, a Delaware limited liability company, is an investment adviser registered with the SEC. The firm has been in business since 2017, when it was founded to serve as the investment adviser and collateral manager to certain CLOs that were previously managed by BMCM.

BMCLO has \$8,435,664,000<sup>1</sup> in assets under management. BMCLO provides investment management, collateral administration and supervisory services to the CLOs on a discretionary basis.

At the time of BMCLO's registration, 100% of the equity interests of BMCLO were owned directly by BMCM. Effective March 31, 2017, BMCM spun out its collateral loan obligation advisory business to BMCLO by distributing such equity interests of BMCLO to the owners of BMCM in proportion to their respective ownership interests of BMCM. Following this transaction, BMCLO commenced providing collateral management services to the CLOs. BMCLO, BMCM and certain of BMCM's affiliates (together, "BlueMountain") operate a unified compliance program. Please see Item 10 of this Brochure for more information with respect to BlueMountain's compliance program.

The CLOs are neither registered under the Securities Act of 1933, as amended, nor registered under the Investment Company Act of 1940, as amended. Accordingly, interests in the CLOs are offered exclusively to investors satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in offshore transactions. No offer to sell interests in these CLOs is made by the descriptions in this Brochure. Please see Item 7 of this Brochure for more information with respect to BMCLO's clients.

### **Principal Ownership**

BMCLO's principal owners (each having a greater than 5% ownership stake) are:<sup>2</sup>

- Andrew T. Feldstein
- Stephen M. Siderow
- Michael Liberman
- Derek Smith
- Bryce Markus
- William H. Reeves
- James ("Jes") Staley
- AMG New York Holdings Corporation

AMG New York Holdings Corporation, a subsidiary of Affiliated Managers Group, Inc. ("AMG"), holds an equity interest in BMCLO. AMG is a publicly-traded asset management company (NYSE: AMG) with equity investments in other boutique investment management firms ("AMG Affiliates"). Further information on both AMG and AMG's Affiliates is provided in Item 10.

### **B. Describe the types of advisory services you offer. If you hold yourself out as specializing in a particular type of advisory service, such as financial planning, quantitative analysis, or market**

---

<sup>1</sup> All monetary values included in this Brochure are calculated as of February 28, 2017.

<sup>2</sup> Principal ownership information calculated as of March 31, 2017.

**timing, explain the nature of that service in greater detail. If you provide investment advice only with respect to limited types of investments, explain the type of investment advice you offer, and disclose that your advice is limited to those types of investments.**

BMCLO's advisory business is generally focused on the management of CLOs, including the collateral obligations and related investments comprising such CLOs, which predominantly consist of below investment grade leveraged loans. BMCLO provides investment advisory services to CLOs under the terms of an investment management agreement, collateral management agreement and/or an indenture. Each such agreement may impose significant limitations on the types of securities and other investments which may be acquired by the relevant CLO.

BMCLO provides such advisory services on a discretionary basis.

**C. Explain whether (and, if so, how) you tailor your advisory services to the individual needs of clients. Explain whether clients may impose restrictions on investing in certain securities or types of securities.**

The advisory services provided by BMCLO to its CLOs are tailored to the investment objectives, investment strategy and investment restrictions, if any, as set forth in the indentures or other governing documents of CLOs and/or the investment management agreement or collateral management agreement entered into by BMCLO with such CLOs.

Each of the CLOs may from time to time enter into agreements ("Side Letters") with one or more of their investors whereby in consideration for agreeing to invest certain amounts in a CLO and/or other consideration deemed sufficiently material, such investors may be granted favorable rights not afforded other investors in such CLO. Such rights may include one or more of the following: rights to receive additional representations and/or covenants by the CLO and/or BMCLO; rights to receive certain information not typically provided to other investors that BMCLO believes are not prejudicial to other investors; rights to receive reduced rates of fees earned by BMCLO, directly or indirectly through a rebate or reimbursement arrangement; and such other rights as may be negotiated between such CLO and BMCLO without the consent of other investors in such CLO; additionally, such agreements usually need not be disclosed to other investors in such CLO.

**D. If you participate in wrap fee programs by providing portfolio management services, (1) describe the differences, if any, between how you manage wrap fee accounts and how you manage other accounts, and (2) explain that you receive a portion of the wrap fee for your services.**

BMCLO does not participate in "wrap fee arrangements," whereby clients select BMCLO to manage funds through an investment program presented to the clients by a third-party program sponsor.

**E. If you manage client assets, disclose the amount of client assets you manage on a discretionary basis and the amount of client assets you manage on a non-discretionary basis. Disclose the date "as of" which you calculated the amounts.**

As of the date of this Brochure, the amount of assets under management by BMCLO is \$8,435,664,000.<sup>3</sup> All of such assets are managed by BMCLO on a discretionary basis.

---

<sup>3</sup> As noted previously, the calculation of the value of such assets occurred as of February 28, 2017.

## **Item 5 – Fees and Compensation**

### **A. Describe how you are compensated for your advisory services. Provide your fee schedule. Disclose whether the fees are negotiable.**

BMCLO is compensated for its advisory services generally through a management fee charged to the CLOs. Such management fee is typically made up of two components (i.e., a “Senior Investment Management Fee” of 0.15% (or 0.20%) as well as a “Subordinated Investment Management Fee” of 0.35% (or 0.30%), in each case, of the net assets<sup>4</sup> of the CLO, per annum) and is typically payable quarterly in arrears (i.e., 1/4 of the aggregate annual management fee of 0.50% of the net assets of each CLO becomes payable to BMCLO following the end of each calendar quarter); however, the management fee structure and terms may vary among different CLOs. Pooled investment vehicles and other accounts that are managed by BMCLO or an affiliate of BMCLO (“BMCLO Clients”) may invest in the CLOs. To the extent that a BMCLO Client’s CLO investment is subject to such management fees (described above) or the performance-based fees (described below), the amount of such fees paid to BMCLO are subject to rebate or offset by BMCLO in favor of such BMCLO Client.

Additionally, BMCLO has entered into a services agreement and a secondment agreement with BMCLO pursuant to which BMCLO provides certain services associated with the management of CLOs, including access to its full team of research analysts and portfolio managers employed by BMCLO, office space, back office services such as loan settlement, legal and compliance services, and performance of trade executions upon instruction from BMCLO. By way of compensation for these services, BMCLO receives a services fee from BMCLO.

In addition, performance compensation is payable to BMCLO on a quarterly basis with respect to each CLO, typically 20% of excess cash flow available after paying liability costs and expenses once a pre-determined hurdle return has been realized; however, the performance compensation structure and terms may vary among different CLOs. See Item 6 for further information with respect to performance compensation.

BMCLO reserves the right to waive or reimburse some or all fees for certain investors in CLOs. As explained above in Item 4, BMCLO enters into Side Letters with CLO investors, whereby such investors are granted favorable rights not granted to other investors in the CLO including, among other things, rights to receive reduced rates of, or reimbursement of, performance compensation and/or management fees earned by BMCLO.

Other fees payable by investors in CLOs are described below.

*CLO investors and prospective investors in CLOs should refer to the offering circular or other offering documents of the respective CLO for detailed information with respect to the fees associated with such CLO. The information contained herein is intended as a summary of such offering documents and is qualified in its entirety by such documents.*

### **B. Describe whether you deduct fees from *clients*’ assets or bill *clients* for fees incurred. If *clients* may select either method, disclose this fact. Explain how often you bill *clients* or deduct your fees.**

---

<sup>4</sup> The net assets of a CLO generally include the aggregate value of the CLO’s collateral plus available cash. The management fee is paid from interest revenue, which is segregated from other CLO cash at the time of such management fee payment.

Management fees and performance compensation are generally paid by the independent trustees of the CLOs to BMCLO pursuant to the terms of the applicable indenture and investment management agreement between the parties.

Management fees and performance compensation may be waived or modified in the sole discretion of BMCLO and/or its affiliates.

*CLO investors and prospective investors in CLOs should refer to the offering circular or other offering documents of the respective CLO for detailed information with respect to how fees are paid with respect to their assets. The information contained herein is intended as a summary of such offering documents and is qualified in its entirety by such documents.*

**C. Describe any other types of fees or expenses *clients* may pay in connection with your advisory services, such as custodian fees or mutual fund expenses. Disclose that *clients* will incur brokerage and other transaction costs, and direct *clients* to the section(s) of your *brochure* that discuss brokerage.**

BMCLO's fees will be exclusive of the CLOs' own organizational (which may be amortized over a period of time), operating and other expenses including (without limitation): (i) investment related expenses (including without limitation, interest expenses, hedging expenses and costs associated with identifying, evaluating, valuing, structuring, monitoring, holding, purchasing, selling, warehousing investments and potential investments (whether or not completed)), (ii) audit expenses, (iii) trustee, rating agency and administration fees and expenses, (iv) legal and accounting expenses, (v) insurance and director fees and (vi) taxes.

Execution of CLO transactions typically requires payment of a bid/ask spread or brokerage commissions by the CLO. Item 12 below describes the factors that BMCLO considers in selecting or recommending broker/dealers for the execution of transactions and determining the reasonableness of their compensation (e.g., commissions). Investment activity may also involve other transaction fees payable by CLOs, such as sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. In addition, CLOs may incur certain charges imposed by custodians, broker/dealers, third-party investment consultants, and other third parties, such as custodial fees, consulting fees, administrative fees and transfer agency fees.

*CLO investors and prospective investors in CLOs should refer to the offering circular or other offering documents of the respective CLO for detailed information with respect to the fees and expenses they may pay in connection with an investment in such CLO. The information contained herein is intended as a summary of such offering documents and is qualified in its entirety by such documents.*

**D. If your *clients* either may or must pay your fees in advance, disclose this fact. Explain how a *client* may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.**

Management fees applicable to the CLOs are paid in arrears (i.e., such fees are not pre-paid) as described in the applicable indenture and investment management agreement between such CLO and BMCLO.

*CLO investors and prospective investors in CLOs should refer to the offering circular or other offering documents of the respective CLO for detailed information with respect to the fees and expenses they may pay in connection with an investment in such CLO and the redemption terms applicable to such investment. The information contained herein is intended as a summary of such offering documents and is qualified in its entirety by such documents.*

**E. If you or any of your *supervised persons* accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, disclose this fact and respond to Items 5.E.1, 5.E.2, 5.E.3 and 5.E.4.**

- 1. Explain that this practice presents a conflict of interest and gives you or your *supervised persons* an incentive to recommend investment products based on the compensation received, rather than on a *client's* needs. Describe generally how you address conflicts that arise, including your procedures for disclosing the conflicts to *clients*. If you primarily recommend mutual funds, disclose whether you will recommend “no-load” funds.**
- 2. Explain that *clients* have the option to purchase investment products that you recommend through other brokers or agents that are not affiliated with you.**
- 3. If more than 50% of your revenue from advisory *clients* results from commissions and other compensation for the sale of investment products you recommend to your *clients*, including asset-based distribution fees from the sale of mutual funds, disclose that commissions provide your primary or, if applicable, your exclusive compensation.**
- 4. If you charge advisory fees in addition to commissions or markups, disclose whether you reduce your advisory fees to offset the commissions or markups.**

None of BMCLO, BMCM or BMCM's employees will receive, directly or indirectly, any compensation from the sale of securities or investments that are purchased or sold for CLO accounts. BMCLO is compensated through the stated management fees and performance compensation agreed upon in the governing documents of the respective CLO.



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

**If you or any of your *supervised persons* accepts *performance-based fees* – that is, fees based on a share of capital gains on or capital appreciation of the assets of a *client* (such as a *client* that is a hedge fund or other pooled investment vehicle) – disclose this fact. If you or any of your *supervised persons* manage both accounts that are charged a *performance-based fee* and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee, disclose this fact. Explain the conflicts of interest that you or your *supervised persons* face by managing these accounts at the same time, including that you or your *supervised persons* have an incentive to favor accounts for which you or your *supervised persons* receive a *performance-based fee*, and describe generally how you address these conflicts.**

As described in Item 5, BMCLO receives performance-based compensation for investment management services provided to CLOs. Such performance-based compensation arrangements are typically subject to a realized return hurdle for the equity investors in a CLO. After the hurdle has been met, BMCLO receives 20% of cash available each quarter after fees, expenses and liability costs are paid; however, the performance compensation structure and terms may vary among different CLOs.

Performance-based compensation creates certain inherent conflicts of interest with respect to BMCLO's management of assets. Specifically, BMCLO's entitlement to performance-based compensation in managing one or more accounts may create an incentive for BMCLO to make investments that are riskier or more speculative than would be the case in the absence of such performance-based compensation.

BMCLO does not manage both accounts that are charged performance-based fees and accounts that are charged only asset-based fees (i.e., fees based simply on the amount of assets under management in an account). Accordingly, BMCLO does not consider its fee structure to present any conflicts of interest in this respect. As a general matter, since performance-based fees reward an adviser for strong performance in accounts subject to such fees, an adviser may have an incentive to favor these accounts over those that have only asset-based fees with respect to areas such as trading opportunities, trade allocation, and allocation of new investment opportunities.

To maintain fair and equitable treatment of all of its CLOs' accounts, BMCLO has implemented controls to further its efforts to treat all accounts fairly, regardless of their corresponding fee-structure. BMCLO maintains and adheres to written guidelines on the allocation of investment opportunities titled "Allocation Compliance Procedures", which apply to the CLOs as well as the BMCM Clients (collectively, "Advisory Clients"). The Allocation Compliance Procedures are part of a unified compliance program that governs the conduct of BlueMountain and its employees. As explained below, BMCLO believes that the Allocation Compliance Procedures, along with other existing controls, provide an environment that fosters the fair and equitable treatment of all accounts managed by BMCLO.

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

BMCLO's investment professionals simultaneously manage portfolios for CLOs that implement comparable investment strategies (i.e., side-by-side management). In addition to managing the CLOs' portfolios, such professionals manage the portfolios of BMCM Clients. The simultaneous management of these different investment products creates certain potential conflicts of interest and the possibility of favorable or preferential treatment of a portfolio or a group of portfolios, as the fees for the management of certain types of products are higher than others. Because side-by-side management raises such issues, and because BMCLO has an affirmative duty to treat all its CLOs fairly and equitably over time, BMCLO has instituted controls, including its Allocation Compliance Procedures, in an effort to ensure that it fulfills this duty.

The Allocation Compliance Procedures are written guidelines intended to ensure that investment opportunities are allocated on a fair and equitable basis between all funds and accounts managed by BlueMountain as part of a unified compliance program. The Allocation Compliance Procedures set forth (i) methods of investment opportunity purchase and sale allocations which vary according to the liquidity profile of each investment opportunity and certain risk parameters applicable to each Advisory Client and (ii) allocation methods which determine how partially-filled orders are divided among Advisory Client accounts. A series of tests are performed to ensure that investment opportunities are allocated in conformity with these guidelines. Although BMCLO has a duty to treat all CLOs fairly and equitably over time, such CLOs will not necessarily be managed the same at all times. Specifically, there is no requirement that BMCLO use the same investment practices consistently across all CLOs. In general, investment decisions for each CLO will be made independently from those of other Advisory Clients, and will be made with specific reference to the individual needs and objectives of each CLO. Different CLO guidelines may lead to the use of different investment practices for different CLOs. In addition, BMCLO will not necessarily purchase or sell the same securities or other instruments at the same time or in the same proportionate amounts for all eligible CLOs, particularly if different CLOs have materially different amounts of capital under management by BMCLO, different idiosyncratic risk concentration limits or different amounts of investable cash available. As a result, although BMCLO and BMCM manage numerous Advisory Clients with comparable investment objectives, the portfolio decisions relating to these Advisory Clients, and the performance resulting from such decisions, may differ from portfolio to portfolio.

BMCLO has entered into a services agreement and a secondment agreement with BMCM whereby BMCM provides certain services associated with the management of CLOs, including access to its full team of research analysts and portfolio managers employed by BMCM; office space; back office services such as loan settlement, legal and compliance services; and performance of trade executions upon instruction from BMCM. By way of compensation for these services, BMCM receives a services fee. Pursuant to this arrangement, certain employees of BMCM perform services for BMCLO and also continue their employment with BMCM and its affiliates.

BlueMountain Fuji Management, LLC (“BlueMountain Fuji”) serves as the collateral manager to certain other collateralized loan obligations not managed by BMCLO and is wholly owned (directly or indirectly) by BMCM Clients. BlueMountain Fuji shares certain employees with BMCM who also perform services for BMCLO. BMCM has entered into a similar services agreement and secondment agreement with BlueMountain Fuji. As a result of these arrangements, BMCLO, BMCM and BlueMountain Fuji share certain personnel. It is expected that the investment professionals associated with BMCLO will be actively involved in other investment activities not concerning the CLOs and therefore will not be able to devote all of their time to the CLOs’ business and affairs.

### **Item 7 – Types of Clients**

**Describe the types of *clients* to whom you generally provide investment advice, such as individuals, trusts, investment companies, or pension plans. If you have any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.**

#### **Types of Clients**

BMCLO provides investment advisory services to CLOs.

#### **Conditions for Managing Accounts**

The minimum initial investment amount for investors in CLOs is generally at least \$250,000.

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

**A. Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets. Explain that investing in securities involves risk of loss that *clients* should be prepared to bear.**

BMCLO is an asset management firm that follows a comprehensive, multi-stage approach to investing. Each CLO's investment strategy is set forth in an offering circular or other offering documents of such CLO.

BMCLO's investment process generally consists of identifying credits to purchase and sell for the CLOs it manages by combining one or more of the following methods of analysis:

1. Fundamental research by research analysts, including company and industry performance history and prospects, quality of underlying collateral and structural and contractual protections;
2. An understanding of the technical dynamics in the credit markets (by the trading desk and portfolio managers); and
3. Market insights, macroeconomic views, judgment, and discretion of the portfolio managers.

BMCLO utilizes BMCM's research analysts to assist in assessing the fundamental quality of loans evaluated by BMCLO. BMCM's analysts undertake in-depth financial analysis of individual names and monitor market developments across the sector. They combine a fundamental, cash flow approach with an understanding of the company's capital structure and specific securities to facilitate absolute and relative value judgments on individual names. Research specialists provide expertise in particular areas of fundamental research to complement sector and name coverage.

BMCLO utilizes BMCM's portfolio managers to analyze trade ideas, monitor the portfolio, perform risk and scenario analyses, and look for investment opportunities. The portfolio management team is ultimately responsible for deciding which investment ideas to implement. The team will make these determinations based on the current exposures in the portfolio, the market environment, the relative attractiveness, risk profile, and liquidity of the new position, and the judgment of its members.

In evaluating loans and securities, the main sources of information used by BMCLO include, but are not limited to: quantitative data provided by third-party vendors; financial newspapers and magazines; research materials prepared by third parties; corporate rating services; annual reports, prospectuses and filings with the SEC; and company press releases.

Investors in CLOs should be aware that investing in securities involves risk of loss that investors should be prepared to bear.

**B. For each significant investment strategy or method of analysis you use, explain the material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss these risks in detail. If your primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.**

All securities investments risk the loss of capital. No guarantee or representation will be made that a CLO will achieve its investment objective or that investors will not lose all or substantially all of their investment in the CLO. Purchases of interests in CLOs will be suitable only for investors of substantial financial means who can make a long-term investment, can bear the risk of loss of their entire investment in the CLO and have no need for liquidity of their investment.

An investment in any of BMCLO's CLOs may decline in value. The nature of the CLOs' investments involves certain risks, and the use of investment techniques (such as hedging and leverage) may carry additional risks. Some of the specific risks to which CLO assets may be susceptible are as follows:

#### Nature of CLO Investments

The CLOs invest in collateral obligations consisting at the time of acquisition of predominantly bank loans and other debt instruments, all of which have greater credit and liquidity risk than investment grade sovereign or corporate bonds or loans. Such collateral is subject to credit, liquidity and interest rate risks. The lower rating of below investment grade collateral reflects a greater possibility that adverse changes in the financial condition of an issuer or borrower or in general economic conditions or both may impair the ability of the relevant borrower or issuer, as the case may be, to make payments of principal or interest.

CLOs are typically structured so that the notes issued by the CLO are assumed to be able to withstand certain assumed losses relating to defaults on the underlying collateral obligations; however, there is no assurance that actual losses will not exceed such assumed losses. If any losses exceed such assumed levels, payments to CLO investors could be adversely affected.

In recent years, events in the collateral debt obligation (including CLO), leveraged finance and fixed income markets have contributed to a severe liquidity crisis in the global credit markets which has resulted in substantial fluctuations in prices for leveraged loans and high-yield debt securities and limited liquidity for such instruments. No assurance can be made that the conditions giving rise to such price fluctuations and limited liquidity will not continue or become more acute. During periods of limited liquidity and higher price volatility, a CLO's ability to acquire or dispose of collateral obligations at a price and time that the CLO deems advantageous may be severely impaired. As a result, in periods of rising market prices, a CLO may be unable to participate in price increases fully to the extent that it is unable to acquire desired positions quickly; and such CLO's inability to dispose fully and promptly of positions in declining markets may exacerbate losses suffered by the CLO when collateral obligations are sold.

#### Concentration of Investments

The CLOs are fully invested in the credit markets with most of the exposure coming from the leveraged loan market. As such, the CLOs have a high concentration of their respective portfolios invested in a single asset class.

#### Collateral Obligations below Investment Grade

Primarily all of the collateral obligations of the CLOs are rated below investment grade. Obligors of below investment grade debt obligations may be highly leveraged and may not have available to them more traditional methods of financing or may not be able to refinance their debt obligations. Leveraged loans have historically experienced greater default rates than has been the case for investment grade securities. There can be no assurance as to the levels of defaults and/or recoveries that may be experienced on the collateral obligations, and an increase in default levels could adversely affect the performance of the CLO, and thus, the return to investors in the CLO.

A non-investment grade loan or other debt obligation is generally considered speculative in nature and may go into default. Such a defaulted obligation may become subject to either substantial work out negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of principal, and a substantial change in the terms, conditions and covenants with respect to such defaulted obligation. In addition, such negotiations or restructuring may be quite extensive and protracted over time, and therefore may result in substantial uncertainty with respect to the ultimate recovery on such defaulted obligation. The liquidity for defaulted obligations may be limited,

and to the extent that defaulted obligations are sold, it is highly unlikely that the proceeds from such sale will be equal to the amount of unpaid principal and interest thereon.

### Volatility

Prices of the collateral obligations may be volatile, and generally fluctuate due to a variety of factors that are inherently difficult to predict, including but not limited to changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic and international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors of the collateral obligations.

### Illiquidity of Investments

CLO investments may have limited liquidity in the secondary market and are subject to transfer restrictions. They are intended for long-term investors and should not be considered a vehicle for short-term trading purposes.

In some circumstances the underlying collateral of CLOs are relatively illiquid, making it difficult to acquire or dispose of them at the prices quoted on the various exchanges. Accordingly, BMCLO's ability to respond to market movements may be impaired, and CLOs may experience adverse price movements upon liquidation of its investments.

In addition, the CLOs may acquire private investments as a part of a bankruptcy or restructuring that are subject to liquidity-related risks, particularly the risk that a CLO will be unable to dispose of such investments by sale or other means at attractive prices or will otherwise be unable to complete any exit strategy. Among others, these risks include changes in the financial condition or prospects of the entity in which the investment is made. It is not generally expected that private securities acquired by a CLO will eventually be registered and listed on a securities exchange. Absent registration, such CLO will not be able to sell such securities unless an exemption from such registration requirements is available. To the extent that there is no liquid trading market for an investment, a CLO may be unable to liquidate that investment or may be unable to do so at a profit. Moreover, there can be no assurances that private purchasers for a CLO's investments will be found.

### Prepayment Risk

Some of the terms of loans acquired by a CLO are subject to early prepayment options or similar provisions which, in each case, could result in a CLO realizing such loans earlier than expected, sometimes with no or a nominal prepayment premium. This typically happens when there is a decline in interest rates, when the portfolio company's improved credit or operating or financial performance allows the refinancing of certain classes of debt with lower cost debt or when the general credit market conditions improve. In the event a CLO receives proceeds from an investment earlier than it had anticipated, a CLO is often permitted to reinvest such proceeds, but there is no assurance that a CLO will be able to reinvest such proceeds even where they are received during such CLO's reinvestment period. On occasion, a CLO's inability to reinvest such proceeds will materially affect the performance of a CLO.

### Reinvestment Risk

Subject to certain limitations, each CLO may generally reinvest any proceeds from its investments for a certain period following the closing date of such CLO. The objective of such reinvestment capability is to provide ongoing additional capital to potentially increase the total return from the investments to such CLO's investors. However, if the proceeds of a CLO's investments are reinvested, its investors' capital will continue to be subject to the risk of loss for a longer period of time. If reinvested proceeds are lost, such loss would offset at least a portion of any gains that may have been realized from prior investments

of such CLO, and it is possible that any such loss could exceed any such prior gains, thereby resulting in a possible loss of at least a portion of the amounts invested in the CLO by its investors.

#### Currency Exposure

Underlying collateral in CLOs are primarily in U.S. Dollars or Euros, and a limited amount are in British Pound Sterling. BMCLO may seek to hedge the foreign currency exposure of CLOs in accordance with the terms of each CLO's indenture. However, CLOs are necessarily subject to foreign exchange risks. In addition, prospective investors in CLOs whose assets and liabilities are predominately in other currencies should take into account the potential risk of loss arising from fluctuations in value between the U.S. Dollar, the Euro and other currencies.

#### Leverage

CLOs employ leverage which could lead to losses in some of the notes issued by a CLO, and the subordinated notes are subject to up to 100% loss of invested capital. Any deterioration in the performance of the underlying collateral will be borne first by the subordinated notes.

#### Hedging Transactions

Aside from entering into perfect asset swaps to hedge certain currency risk, the CLOs are not expected to enter into hedging transactions. Any hedging transactions must conform to the requirements of the indenture.

#### Counterparty Risk

In general, CLOs typically have little counterparty risk as a result of their structures. However, a CLO is subject to the risk of the inability of any counterparty (including custodians) to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes.

#### Reliance on Corporate Management and Financial Reporting

BMCLO relies on the financial information made available by the issuers in which CLOs invest. BMCLO does not independently verify the financial information disseminated by the numerous issuers in which CLOs may invest and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general. Corporate mismanagement, fraud and accounting irregularities relating to the issuers of investments held by CLOs may result in material losses.

#### Litigation

From time to time, in the ordinary course of their operations, BMCLO and its affiliates may be subject to litigation and arbitration, which can be costly and divert significant portions of available staff time and resources. In addition, a CLO's investment activities may subject it to the risks of becoming involved in litigation by third parties. This risk may be greater where the CLO exercises control or significant influence over a company's direction. The expense of defending claims against a CLO by third parties, including bankruptcy or insolvency proceedings, and paying any amounts pursuant to settlements or judgments would, except in the unlikely event that the CLO is indemnified for such amounts, be borne by the CLO and would reduce the funds available for distribution and the CLO's net assets. There can be no assurance that any such litigation, once begun, would be resolved in favor of the applicable CLO. Any litigation or arbitration could have a materially adverse effect on the involved CLO.

BMCLO may participate in creditors' committees with respect to the bankruptcy, restructuring or work out of issuers of collateral obligations. In such circumstances, BMCLO may take positions on behalf of a

CLO that are adverse to the interests of another CLO. BMCLO will be entitled to receive any steering committee fees associated with a bankruptcy, restructuring or work out (except any fees received in connection with the extension of the maturity of a defaulted obligation or a reduction in the outstanding principal balance of a defaulted obligation) received in connection with the work out or restructuring of any defaulted obligations.

The funds available to a CLO to pay certain fees and operating expenses are limited by restrictions governing the CLO's priority of payments to pay for such fees and expenses. If such funds are not sufficient to pay the expenses incurred by the CLO, the ability of the CLO to operate effectively may be impaired, and the CLO may not be able to defend or prosecute legal proceedings that may be brought against it or that the CLO might otherwise bring to protect its interests. In addition, service providers of a CLO that are not paid in full, may have the right to resign. This could ultimately lead to the CLO being in default under applicable law.

#### Exposure to Material Non-Public Information

From time to time, BMCLO may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, CLOs may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

#### Reliance on BMCLO

Investors in a CLO generally do not have an opportunity to select or evaluate any CLO's investments, or to review a CLO's securities and other investment positions. BMCLO selects all CLO investments, and the quality of BMCLO's decisions dictates the CLOs' success or failure. In addition, the business and prospects of BMCLO (and by extension, the CLOs) might be materially and adversely affected by the death or incapacity of any senior personnel of who provide services to BMCLO. Further, if the CLOs managed by BMCLO were to incur substantial losses, the revenues of BMCLO may decline substantially. Such losses may impair BMCLO's ability to retain services of employees from BMCLO, provide the same level of service to the CLOs and continue operations.

#### Reliance on BMCLO

BMCLO has entered into a services agreement and secondment agreement with BMCLO pursuant to which BMCLO provides certain services and personnel to BMCLO in exchange for a services fee and secondment fee payable to BMCLO. The business and prospects of BMCLO (and by extension, the CLOs) might be materially and adversely affected by any event having a negative impact on BMCLO and/or BMCLO's ability to fulfill its obligations under such agreements.

#### Competition

The business of investing in assets meeting the CLOs' investment objectives is highly competitive. Competition for investment opportunities includes a growing number of non-traditional participants, such as hedge funds, private and public mezzanine and subordinated debt funds, including business development companies, and other private investors, as well as more traditional lending institutions and competitors. Some of these competitors may have access to greater amounts of capital and to capital that may be committed for longer periods of time or may have different return thresholds than the CLOs, and thus these competitors may have advantages relative to the CLOs. Increased competition for, or a diminishment in the available supply of, investments suitable for the CLOs could result in lower returns on such investments. In addition, issuers may prefer to take advantage of favorable high yield or second-lien markets and issue subordinated debt in those markets, which could result in fewer investment opportunities for CLOs. Moreover, the identification of attractive investment opportunities is difficult and



involves a high degree of uncertainty. CLOs may incur significant expenses in connection with identifying investment opportunities and investigating other potential investments which are ultimately not consummated, including expenses relating to due diligence, transportation and legal expenses.

#### Reliance on Certain Third Parties

CLOs are dependent upon their service providers, such as the trustees, directors, custodians and administrators of the CLOs. Errors are inherent in the operations of any business (including the business of the CLOs), and although BMCLO has adopted measures to prevent and detect errors by, and misconduct of, service providers, and to transact with service providers it believes to be reliable, such measures may not be effective in all cases. Errors or misconduct by such service providers could have a material adverse effect on the CLOs.

#### Operating and Financial Risks of Companies

Companies in which the CLOs invest often face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities, or a larger number of qualified managerial and technical personnel. As a result, portfolio companies which BMCLO expects to be stable at times will (i) operate at a loss or have significant variations in operating results, (ii) require substantial additional capital to support their operations or to maintain their competitive position or (iii) experience financial distress. Portfolio companies often issue certain types of debt, such as mezzanine or high yield, in connection with leveraged acquisitions or recapitalizations in which the portfolio company incurs a substantially higher amount of indebtedness than the level at which it had previously operated.

#### Financially Troubled Companies

CLOs make investments that may become distressed due to factors outside the control of BMCLO. There is no assurance that there will be sufficient collateral to cover the value of the loans and/or other investments purchased by a CLO or that there will be a successful reorganization or similar action of the company or investment which becomes distressed. In any reorganization or liquidation proceeding relating to a company in which a CLO invests, a CLO is in a position to lose its entire investment, to be required to accept cash or securities with a value less than a CLO's original investment and/or to be required to accept payment over an extended period of time. Under these circumstances, the returns generated from a CLO's investments will likely not compensate the investors in the CLOs adequately for the risks assumed. Additionally, under certain circumstances, a lender who has inappropriately exercised control of the management and policies of a debtor will generally either have its claims subordinated, or disallowed, or be found liable for damage suffered by parties as a result of such actions. Under circumstances involving a portfolio company's insolvency, payments to a CLO and distributions by a CLO to its investors are likely to be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Troubled company investments require active monitoring and, at times, require significant participation in business strategy or reorganization proceedings by BMCLO. In addition, involvement by BMCLO in a company's reorganization proceedings could result in the imposition of restrictions limiting a CLO's ability to liquidate its position in the company.

#### Co-Investments of CLOs

A CLO may co-invest initially in a particular loan, security or other investment at substantially the same time as other CLOs, in which case they would invest at substantially the same price; however, the actual price, terms and amount of leverage (if any), and associated transaction costs may differ between CLOs. In addition, there can be no assurance that each CLO would dispose of such an investment at substantially

the same price or time as other CLOs due to many factors that may or may not be foreseeable at the time of investment, including available cash and other needs, differing basis in the investment, differing financing terms applicable to different investments, time horizons applicable to different CLOs (including different investment periods) and their differing investment objectives and investment programs. Further, one CLO's determination to dispose of an investment could affect the timing of another CLO's disposal of that same investment. For example, such disposal could forfeit or diminish altogether certain rights or benefits held directly or indirectly by all CLOs participating in the investment due to aggregate holdings size requirements or other considerations or otherwise affect the long-term viability of the investment, resulting in the determination by the other CLOs that it is in their respective best interests to liquidate their positions as well even if the timing of such liquidation would not otherwise have been considered optimal. Further, to the extent a CLO is required to liquidate its interest in such investment, such liquidation may have an adverse effect on the market value of the underlying investment.

#### Investing in Pre-Existing Investments

The CLOs may invest in collateral in which other Advisory Clients hold an investment. Such transactions may have an effect (positive or negative) on the market price of such investment. In circumstances in which a CLO invests in an instrument in which other Advisory Clients have a pre-existing investment, the investing CLO will make business decisions relating to such investment independently of the analogous decisions made with respect to such investment by such other Advisory Clients.

#### Investing in Different Levels of the Capital Structure

The CLOs may hold interests in an entity that are of a different class, type or seniority than, or otherwise adverse to, the class, type or seniority of interests held by other Advisory Clients, including other CLOs. Similarly, Advisory Clients (including the CLOs) may both hold multiple investments across the capital structure of an issuer of varying classes, types or seniorities, but may hold different proportions of each such investment. It is possible that the trading and investment activities of any Advisory Client could conflict with the activities and strategies employed in managing the assets of a CLO and affect the prices and availability of the loans, securities and instruments in which a CLO invests. For example, one Advisory Client may hold unsecured debt of an issuer while another Advisory Client holds secured debt of the same issuer. This would potentially result in one Advisory Client being senior or junior to another Advisory Client in the capital structure of such entity, which could mean that in a restructuring, workout or other distressed scenario the interests of such Advisory Clients might be adverse to one another, and one such Advisory Client might recover all or part of their investment while the other does not. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, raise conflicts of interest.

While BMCLO seeks to resolve such conflicts of interest in a fair and equitable manner, a CLO (or another Advisory Client, as applicable) will not be required to take any action or refrain from taking any action to mitigate losses by a particular CLO, in any such a scenario.

#### Dissolution Risks

The CLOs may be required to liquidate their investments. In the case of a dissolution of a CLO, dissolution may require the selling of such CLO's investments under circumstances which may negatively affect the CLO's returns. Where a CLO is liquidated pursuant to its dissolution provisions, this may also negatively affect the value of other CLOs' investments and/or the circumstances of their disposition and accordingly the CLOs' returns.

### General Economic Conditions

The CLOs and the companies in which CLOs invest are typically adversely affected by deteriorations in the financial markets and economic conditions throughout the world, some of which magnify the risks described herein and have other adverse effects. Deteriorating market conditions could result in increasing volatility and illiquidity in the global credit, debt and equity markets generally. The duration and ultimate effect of recent market conditions cannot be forecast, nor is it known whether or the degree to which such conditions will remain stable or worsen. Deteriorating market conditions and uncertainty regarding economic markets generally could result in declines in the market values of potential investments or declines in the market values of investments after they are made or acquired by the CLOs. It would be expected that such declines will be exacerbated by other events, such as the failure of significant financial institutions or investment funds, dislocations in other investment markets or other extrinsic events. In addition, such declines could lead to weakened investment opportunities for the CLOs, could prevent the CLOs from successfully meeting their investment objectives and/or could require the CLOs to dispose of investments at a loss while such unfavorable market conditions prevail.

### Regulatory Risk

Legal, tax and regulatory changes could occur during the term of a CLO that may adversely affect a CLO. The regulatory environment for CLOs and CLO managers, such as BMCLO, is evolving, and there is a possibility that changes in the regulation of CLOs and CLO managers will adversely affect the value of CLO interests, including by adversely affecting the value of investments held by a CLO and the ability of a CLO to obtain the leverage it might otherwise obtain or to pursue its trading strategies. The regulation of CLOs and CLO managers is subject to modification by domestic and foreign government and judicial action. The effect of any future regulatory change on a CLO could be substantial and adverse.

### The Dodd Frank Act and U.S. Risk Retention Rules

In response to the downturn in the credit markets and the global economic crisis of 2007-2008, legislators and various agencies and regulatory bodies of the United States federal government and in Europe have taken or are considering taking actions. These actions include, but are not limited to, the enactment of the Dodd Frank Wall Street Reform and Consumer Protection Act (the “Dodd Frank Act”), which was signed into law on July 21, 2010, and which imposes a new regulatory framework over the U.S. financial services industry and the consumer credit markets in general, and proposed and actual regulations by the SEC and the Commodity Futures Trading Commission (“CFTC”) that, if enacted and/or implemented as currently anticipated, would significantly alter the manner in which asset backed securities, including securities similar to those issued by the CLOs, are issued and structured and increase the reporting obligations of the issuers and asset managers of such securities.

Pursuant to the Dodd Frank Act, the CFTC has promulgated a range of new regulatory requirements that may affect the pricing, terms and compliance costs associated with derivatives contracts that may be entered into by a CLO from time to time. Such new regulations may require central clearing of derivatives trades with a derivatives clearinghouse organization, may mandate initial and variation margin requirements, and may increase reporting obligations, documentation responsibilities and other matters in respect of derivatives contracts, in each case, potentially resulting in significantly increased costs to the CLOs and/or BMCLO. Such regulation and related increased costs may lead to a CLO’s inability to purchase additional collateral obligations or have unforeseen legal consequences on a CLO or BMCLO or have other material adverse effects on the CLOs or investors therein. In addition, CFTC rules under the Dodd Frank Act include “swaps” along with “futures” as contracts which if traded by an entity may cause that entity to fall within the definitions of a “commodity pool” or “commodity trading advisor” under the Commodities Exchange Act and BMCLO to fall within the definition of a “commodity pool operator” (“CPO”) and/or a “commodity trading advisor” (“CTA”).

Although the CFTC has provided guidance that certain securitization transactions, including collateralized loan obligations (similar to the CLOs), should be excluded from the definition of “commodity pool”, it is unclear if such exclusion will apply to all collateralized loan obligations, and in certain instances, the manager of a securitization vehicle may be required to register as a CPO and/or a CTA with the CFTC or apply for an exemption from registration.

BMCLO is not registered with the CFTC; however, it may so register in the future. Such registration would cause BMCLO to be subject to registration and reporting requirements that may result in material costs to the CLOs. The scope of the requirements described above and related compliance costs is uncertain but could adversely affect the amount of the CLOs’ funds available to make payments. While the CLOs may be excluded from the definition of “commodity pool” or BMCLO may satisfy the requirements of an exemption from the registration requirements described above, the conditions of any such exclusion or exemption may constrain the extent to which the CLOs may be able to enter into certain derivatives transactions. In particular, the limits imposed by such exclusions or exemptions, or the compliance costs resulting from the CFTC rules, may prevent the CLOs from entering into transactions that BMCLO believes would be advisable or result in the CLOs incurring financial risks that would have been hedged absent such limits or compliance costs.

Given the broad scope and sweeping nature of these changes and the fact that final implementing rules and regulations have not yet been enacted, the potential impact of these actions on the CLOs and BMCLO is unknown, and no assurance can be made that the impact of such changes would not have a material adverse effect on the prospects of the CLOs or the value or marketability of their investments.

On October 21, 2014, the final rules implementing the credit risk retention requirements of Section 941 of the Dodd-Frank Act (the “U.S. Risk Retention Rules”) were issued. The U.S. Risk Retention Rules generally require the collateral manager of a collateralized loan obligation to retain not less than five percent of the credit risk of the assets collateralizing the collateralized loan obligation’s securities. The U.S. Risk Retention Rules became effective on December 24, 2016. The U.S. Risk Retention Rules may have adverse effects on the CLOs, even in the case of a CLO which closed prior to such effective date. Furthermore, no assurance can be given as to whether the U.S. Risk Retention Rules will have any future material adverse effect on the business, financial condition or prospects of BMCLO or the CLOs or on the market value or liquidity of their investments. As a general matter, the U.S. Risk Retention Rules apply with respect to initial offerings as well as other transactions, including, without limitation, certain refinancings, re-pricings and additional issuances. BMCLO does not expect to effect any transactions which would require BMCLO to retain an interest in the CLOs. However, BMCLO does not expect to make any commitment or any representation nor give any undertaking as to compliance with the U.S. Risk Retention Rules in connection with its operations. BMCLO’s regulatory authorizations and obligations may change from time to time, and no assurance can be made that the United States federal government or any U.S. regulatory body (or other authority or regulatory body) will not continue to take further legislative or regulatory action in response to the economic crisis or otherwise, and the effect of such actions, if any, cannot be known or predicted.

#### European Risk Retention

In Europe, risk retention and due diligence requirements (the “EU Risk Retention and Due Diligence Requirements”) apply in respect of various types of European Union regulated investors. Among other things, such requirements restrict an investor who is subject to the EU Risk Retention and Due Diligence Requirements from investing in securitizations unless: (i) the originator has explicitly disclosed that it will retain at least five percent of certain specified tranches; and (ii) is able to demonstrate that the investor performed due diligence with respect to its investment. Failure to comply with one or more of the requirements may result in various penalties including, in the case of those investors subject to regulatory capital requirements, the imposition of a punitive capital charge on the notes acquired by the

relevant investor. Aspects of the requirements and what is or will be required to demonstrate compliance to national regulators remain unclear. These requirements and any other changes to the regulatory treatment of securitizations may negatively impact the regulatory position of investors. In addition, such regulations could have a negative impact on the price and liquidity of the notes offered by a CLO in the secondary market. BMCLO does not expect to effect any transactions which would require BMCLO to retain an interest in the CLOs. However, BMCLO does not expect to make any commitment or any representation nor give any undertaking as to compliance with the EU Risk Retention and Due Diligence Requirements in connection with its operations. There can be no assurances as to whether the EU Risk Retention and Due Diligence Requirements will be amended or altered by a change in law or regulation.

#### Lender Liability and Equitable Subordination

A number of judicial decisions have upheld judgments of borrowers against lending institutions on the basis of various evolving legal theories, collectively termed “lender liability”. Generally, lender liability is founded on the premise that a lender has violated a duty (whether implied or contractual) of good faith, commercial reasonableness and fair dealing, or a similar duty owed to the borrower or has assumed an excessive degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of the portfolios held by the CLOs, each of the CLOs may be subject to allegations of lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (a) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a shareholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination”. Because of the nature of the portfolios held by the CLOs, each of the CLOs may be subject to claims of equitable subordination.

Because the BMCM Clients may hold equity or other interests in obligors of collateral obligations, a CLO could be exposed to claims for equitable subordination or lender liability or both based on such equity or other holdings.

The foregoing discussion of lender liability and equitable subordination is based upon principles of United States federal and state laws. Insofar as collateral obligations that are obligations of non-United States obligors are concerned, the laws of certain foreign jurisdictions may impose liability upon lenders or bondholders under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under United States federal and state laws.

#### Cybersecurity and Systems Risks

BMCLO relies extensively on computer programs, networks, devices and systems (and may rely on new systems and technology in the future) in connection with the CLOs’ investment activities, including, without limitation, to trade, clear and settle securities transactions, to evaluate certain investments based on real-time information, to engage in automated trading, to monitor each CLO’s portfolio and net capital, and to generate risk management and other reports that are critical to oversight of each CLO’s activities. In addition, certain of the CLOs’, BMCLO’s and their affiliates’ operations interface with or depend on computer programs, networks, devices and systems operated by third-parties, service providers and market counterparties and their sub-custodians and other service providers, and BMCLO may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures, interruptions or security breaches, including, but not limited to, those

caused by computer “worms,” viruses, power failures and social engineering schemes such as “phishing.”

Cybersecurity and information security breaches can include unauthorized access to systems, networks, or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow, or otherwise disrupt operations, business processes, or website access or functionality. BMCLO’s operations are highly dependent on each of these systems and the successful operation of such systems is often out of BMCLO’s control. Any such defect, failure or breach could have a material adverse effect on the CLOs, BMCLO and their affiliates. For example, systems failures, information security incidents or cybersecurity breaches could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades, and cause inaccurate reports, which may affect the ability of BMCLO to accurately monitor the CLOs’ investment portfolios and risks. Cybersecurity breaches may cause (i) disruptions and impact business operations, potentially resulting in financial losses to the CLOs; (ii) interference with BMCLO’s ability to calculate the value of a CLO’s investment; (iii) impediments to trading; (iv) the inability of BMCLO and other service providers to transact business; (v) violations of applicable privacy and other laws; (vi) regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs; as well as (vii) the inadvertent release of confidential information. Similar adverse consequences could result from system failures and cybersecurity breaches affecting (i) issuers of securities in which the CLOs invest; (ii) counterparties with which the CLOs engage in transactions; (iii) governmental and other regulatory authorities; (iv) exchange and other financial market operators, banks, brokers, dealers, insurance companies, and other financial institutions; and (v) other parties. In addition, substantial costs may be incurred by these entities in order to prevent any cybersecurity breaches in the future.

*CLO investors and prospective investors in CLOs are provided with the offering circular or other offering documents of the respective CLO that provide a detailed description of the material risks related to an investment in the CLO. Such investors are advised to review carefully all risk factors set forth in such documents.*

**C. If you recommend primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail.**

#### Fixed Income Obligations

A CLO’s investments in fixed income obligations are subject to the risk of an issuer’s ability to meet principal and interest payments on the obligation (credit risk), and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). Loans and other fixed income securities generally involve less market risk than stocks. However, the risk of loans can vary significantly depending upon factors such as the issuer and maturity. For example, the issuer of a security or the counterparty to a contract may default or otherwise become unable to honor a financial obligation. The loans of some companies may be riskier than the stocks of others.

#### Non-U.S. Issuers

The CLOs invest in the loans of non-U.S. issuers. Investing in such instruments involves certain considerations not usually associated with investing in the loans of a U.S. issuer, including, among other things: political and economic considerations, such as greater risks of expropriation, nationalization and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; imposition of withholdings and other taxes; and certain government policies that may restrict a CLO’s investment

opportunities. In addition, accounting and financial reporting standards that prevail in many foreign countries are not equivalent to U.S. standards and, consequently, less information may be available with respect to non-U.S. issuers than is available with respect to U.S. issuers.

Bankruptcy law and process in non-U.S. jurisdictions often differ substantially from that in the United States, which will often result in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain, while some other developing countries have no bankruptcy laws enacted, adding further uncertainty to the process for reorganization.

#### Loan Participations and Assignments

The CLOs may invest in fixed- and floating-rate loans, which investments generally are in the form of loan participations and assignments of portions of such loans. Participations and assignments involve credit risk, interest rate risk, liquidity risk, and the risks of being a lender. Participations in commercial loans may be secured or unsecured. Loan participations typically represent direct participation in a loan to a corporate borrower, and generally are offered by banks, other financial institutions, or lending syndicates. The CLOs invest in funded term loans through participations and assignments. When purchasing loan participations, a CLO assumes the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary, and may only be able to enforce its rights through the lender, and may assume the credit risk of the lender in addition to the borrower. The participation interests in which a CLO invests may not be rated by any nationally recognized rating service.

Investments in loans through a direct assignment of a financial institution's interests with respect to the loan may involve additional risks to a CLO. For example, if a loan is foreclosed, a CLO could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that, under emerging legal theories of lender liability, a CLO could be held liable as a co-lender. It is unclear whether loans and other forms of direct indebtedness offer securities laws protections against fraud and misrepresentation. In the absence of definitive regulatory guidance, a CLO relies on BMCLO's research in an attempt to avoid situations where fraud or misrepresentation could adversely affect the CLO.

#### Senior Secured Loans, Secured Senior Bonds, High Yield Bonds and Mezzanine Obligations

The CLOs invest in (without limitation) secured senior loans, secured senior bonds, mezzanine obligations, high yield bonds and unsecured senior obligations. Such instruments are of a type generally incurred by the obligors thereunder in connection with highly leveraged transactions, often (although not exclusively) to finance internal growth, pay dividends or other distributions to the equity holders in the obligor, or finance acquisitions, mergers, and/or share purchases. As a result of the additional debt incurred by the obligor in the course of such a transaction, the obligor's creditworthiness is typically judged by the rating agencies to be below investment grade.

Secured senior loans, secured senior bonds and unsecured senior obligations are typically at the most senior level of the capital structure with mezzanine obligations being subordinated to any senior loans or to any other senior debt of the obligor.

Mezzanine obligations take the form of medium term loans or obligations of such type repayable shortly (perhaps six months or one year) after the senior loans or obligations of the obligor thereunder are repaid. Because mezzanine obligations are only repayable after the senior debt (and interest payments may be blocked to protect the position of senior debt interest in certain circumstances), they will carry a higher

rate of interest to reflect the greater risk of such an obligation not being repaid. Due to the greater risk associated with mezzanine obligations as a result of their subordination below senior loans of the obligor, mezzanine lenders may be granted share options, warrants or higher cash paying instruments or payment in kind in the obligor which can be exercised in certain circumstances, principally being immediately prior to the obligor's shares being sold or floated in an initial public offering.

Although any debt instrument may share many similar features with other loans and obligations of its type, the actual terms will have been a matter of negotiation and will be unique. Any such particular loan or security may contain non-standard terms and may provide less protection for creditors than may be expected generally, including in respect of covenants, events of default, security or guarantees.

### Cov-Lite Loans

The CLOs invest in (without limitation) cov-lite loans, and the ownership thereof may expose the CLOs to greater risks (including with respect to liquidity, price volatility and ability to restructure loans) than is the case with loans that have maintenance covenants. In addition, the lack of maintenance covenants in co-lite loans may make it more difficult for lenders to trigger a default in respect of such collateral obligations. This makes it more likely that any default will only arise under a cov-lite loan at a stage where the relevant obligor is in a greater degree of financial distress. Such a delay in the occurrence of a default may make any successful restructuring more difficult to achieve and/or result in a greater reduction in the value of the cov-lite loan as a consequence of any restructuring effected in such circumstances.

### Security

Secured senior loans and secured senior bonds are often secured by specific collateral, including but not limited to, trademarks, patents, accounts receivable, inventory, equipment, buildings, real estate, franchises and common and preferred shares of the obligor and its subsidiaries and any applicable associated liens relating thereto. In continental Europe, security is often limited to shares in certain group companies, accounts receivable, bank account balances and intellectual property rights.

Mezzanine obligations may have the benefit of a second priority charge over such collateral obligations. Unsecured senior obligations do not have the benefit of such security. High yield bonds are also generally unsecured.

Secured senior loans and secured senior bonds usually have shorter terms than more junior obligations and often require mandatory prepayments from excess cash flows, asset dispositions and offerings of debt and/or equity securities.

### Second Lien Loans

The CLOs' collateral obligations may include second lien loans, each of which will be secured by collateral, but which is subordinated (with respect to liquidation preferences with respect to pledged collateral) to other secured obligations of the obligors secured by all or a portion of the collateral securing such secured loan. Second lien loans are typically subject to intercreditor arrangements, the provisions of which may prohibit or restrict the ability of the holder of a second lien loan to (i) exercise remedies against the collateral with respect to their second liens; (ii) challenge any exercise of remedies against the collateral by the first lien lenders with respect to their first liens; (iii) challenge the enforceability or priority of the first liens on the collateral; and (iv) exercise certain other secured creditor rights, both before and during a bankruptcy of the borrower. In addition, during a bankruptcy of the obligor, the holder of a second lien loan may be required to give advance consent to (a) any use of cash collateral approved by the first lien creditors; (b) sales of collateral approved by the first lien lenders and the bankruptcy court, so long as the second liens continue to attach to the sale proceeds; and (c) "debtor-in-



possession” financings. Liens arising by operation of law may take priority over the CLOs’ liens on an obligor’s underlying collateral and may impair the CLOs’ recovery on a collateral obligation if a default or foreclosure on that collateral obligation occurs.

An example of a lien arising under law is a tax or other government lien on property of an obligor. A tax lien may have priority over a CLO’s lien on such collateral. To the extent that a lien having priority over a CLO’s lien exists with respect to the collateral related to any collateral obligation, the CLO’s interest in the asset will be subordinate to such lien. If the creditor holding such lien exercises its remedies, it is possible that, after such creditor is repaid, sufficient cash proceeds from the underlying collateral will not be available to pay the outstanding principal amount of such collateral obligation.

### Corporate Rescue Loans

Corporate rescue loans are made to companies that have experienced, or are experiencing, significant financial or business difficulties such that they have become subject to bankruptcy or other reorganization and liquidation proceedings and thus involves additional risks. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the CLOs will correctly evaluate the value of the assets securing a corporate rescue loan or the prospects for a successful reorganization or similar action, and accordingly a CLO could suffer significant losses on its investments in such corporate rescue loan. In any reorganization or liquidation case relating to a company in which a CLO invests, such CLO may lose its entire investment, may be required to accept cash or securities with a value less than its original investment and/or may be required to accept payment over an extended period of time.

Distressed company and other asset-based investments require active monitoring and may, at times, require participation by a CLO in business strategy or bankruptcy proceedings. To the extent that a CLO becomes involved in such proceedings, such CLO’s more active participation in the affairs of the bankruptcy debtor could result in the imposition of restrictions limiting the CLO’s ability to liquidate its position in the debtor.

Although a corporate rescue loan may be unsecured, where the obligor is subject to U.S. insolvency law, it has a priority permitted by section 364(c) or section 364(d) under the United States Bankruptcy Code, and at the time that it is acquired by the CLO is required to be current with respect to scheduled payments of interest and principal (if any).

*CLO investors and prospective investors in CLOs are provided with the offering circular or other offering documents of the respective CLO that provide a detailed description of the material risks related to an investment in the CLO. Such investors are advised to review carefully all risk factors set forth in such documents.*

### **Item 9 – Disciplinary Information**

**If there are legal or disciplinary events that are material to a *client's* or prospective *client's* evaluation of your advisory business or the integrity of your management, disclose all material facts regarding those events.**

BMCLO is obligated to disclose legal or disciplinary events that would be material to a client's or prospective client's evaluation of BMCLO's advisory business or the integrity of its management. BMCLO does not have any such legal or disciplinary events to report.

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

**A. If you or any of your *management persons* are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.**

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

**B. If you or any of your *management persons* are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities, disclose this fact.**

Neither BMCLO nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of BMCLO. In connection with the CFTC registration and NFA membership of BMCM and BlueMountain London (as defined below), certain employees of such entities are listed and/or registered, as appropriate, with the NFA as principals and/or associated persons of such entities and their affiliates.

**C. Describe any relationship or arrangement that is material to your advisory business or to your *clients* that you or any of your *management persons* have with any *related person* listed below. Identify the *related person* and if the relationship or arrangement creates a material conflict of interest with *clients*, describe the nature of the conflict and how you address it.**

- 1. broker-dealer, municipal securities dealer, or government securities dealer or broker**
- 2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund)**
- 3. other investment adviser or financial planner**
- 4. futures commission merchant, commodity pool operator, or commodity trading advisor**
- 5. banking or thrift institution**
- 6. accountant or accounting firm**
- 7. lawyer or law firm**
- 8. insurance company or agency**
- 9. pension consultant**
- 10. real estate broker or dealer**
- 11. sponsor or syndicator of limited partnerships.**

BMCM Clients may invest in the CLOs. To the extent that a BMCM Client’s CLO investment is subject to the management fees or performance-based fees described in Item 5 above, the amount of such fees paid to BMCLO are subject to rebate or offset by BMCM in favor of such BMCM Client.

BMCM is registered as a registered investment adviser under the Investment Advisers Act of 1940 (the “Advisers Act”), is registered with the CFTC as a CPO and is a member of the NFA. BMCLO has entered into a services and secondment agreement with BMCM whereby BMCM provides certain services associated with the management of CLOs, including access to its full team of research analysts and portfolio managers employed by BMCM; office space; back office services such as loan settlement, legal and compliance services; and performance of trade executions upon instruction from BMCM. By way of compensation for these services, BMCM receives a services fee. Pursuant to this arrangement, certain employees of BMCM perform services for BMCLO and also continue their employment with BMCM and its affiliates.

BlueMountain Fuji serves as the collateral manager to certain other collateralized loan obligations not managed by BMCLO and is wholly owned (directly or indirectly) by BMCM Clients. BlueMountain Fuji shares certain employees with BMCM who also perform services for BMCLO. BMCM has entered into a similar services agreement and secondment agreement with BlueMountain Fuji. As a result of these arrangements, BMCLO, BMCM and BlueMountain Fuji share certain personnel. The investment professionals associated with BMCLO are actively involved in other investment activities not concerning the CLOs and therefore will not be able to devote all of their time to the CLOs' business and affairs.

Blue Mountain Capital Partners (London) LLP ("BlueMountain London"), a subsidiary of BMCM, serves as adviser to BMCM primarily with respect to issuers based in Europe, and is compensated by BMCM for its services. BlueMountain London is registered with the Financial Conduct Authority, and is also registered as a CTA with the CFTC and is a member of the NFA. BMCM has a sub-advisory agreement with BlueVirgo Capital Management, LLC ("BlueVirgo"), pursuant to which BlueVirgo serves as adviser to certain BMCM Clients with respect to tax liens and related investment products. BMCLO does not consider its relationship with BMCM, BlueMountain Fuji, BlueMountain London or BlueVirgo to create a material conflict of interest with respect to the CLOs.

Affiliated Managers Group, Inc. ("AMG"), a publicly traded asset management company (NYSE: AMG) with equity investments in boutique investment management firms, holds an equity interest in BMCLO. AMG also holds equity interests in certain other investment advisers ("AMG Affiliates"). Each of the AMG Affiliates, including BMCM, is operated autonomously and independently, and except as described in this Brochure, neither BMCM nor BMCLO has any business dealings with other AMG Affiliates and does not conduct any joint operations with them. Moreover, the AMG Affiliates do not formulate advice for BMCM or BMCLO. As such, AMG's ownership interest in BMCLO does not, in BMCLO's view, present any potential conflict of interest for BMCLO with respect to the CLOs. More information regarding AMG, including its public filings and a list of all AMG Affiliates, is available at [www.amg.com](http://www.amg.com).

**D. If you recommend or select other investment advisers for your *clients* and you receive compensation directly or indirectly from those advisers that creates a material conflict of interest, or if you have other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.**

Not applicable.

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

**A. If you are an SEC-registered adviser, briefly describe your code of ethics adopted pursuant to SEC rule 204A-1 or similar state rules. Explain that you will provide a copy of your code of ethics to any *client* or prospective *client* upon request.**

BlueMountain (including BMCLO, BMCM and certain of BMCM's affiliates) operates a unified compliance program that addresses conflicts which may arise among such entities, Advisory Clients (including the CLOs and the BMCM Clients) and BlueMountain employees (including shared personnel).

BlueMountain strives to adhere to the highest industry standards of integrity, professionalism and trust. To this end, BlueMountain has adopted a Code of Ethics (the "Code") that generally requires BlueMountain's employees to comply with all applicable federal securities laws, place the interests of clients first, avoid conflicts of interest, not take inappropriate advantage of the employee's position, adhere to certain restrictions with respect to the receipt and giving of gifts and safeguard confidential information. Each employee is required to report to the Chief Compliance Officer or Chief Executive Officer any known or suspected violations of the Code or law.

Each newly hired employee receives a copy of the Code and is required to certify that he or she has read and understands it. Training is provided for employees with respect to the Code and their duties under it. On an annual basis, each BlueMountain employee must certify that he or she has read and understands the Code, has complied with its provisions and has disclosed, pre-cleared and arranged for the reporting of all transactions in securities consistent with the requirements of the Code.

### **Personal Trading**

The Code also places restrictions on the personal trading of employees, including the requirement that employees arrange to have duplicates of certain brokerage statements or a quarterly holdings report provided to BlueMountain. The Chief Compliance Officer (or his or her designee) reviews and compares all reported personal securities transactions against transactions indicated on the employee's brokerage statements or holdings reports and the transactions of BlueMountain's Advisory Clients in an effort to ensure that personal trading by employees is being conducted in a manner consistent with the Code. Except with respect to certain exempted transactions, no BlueMountain employee may purchase or sell any security without first obtaining pre-clearance pursuant to the approval process set forth in the Code. Certain pre-clearance requests meeting written standards set forth in the Code will generally be approved on the business day following the date of request. Requests which do not qualify for automatic approval are reviewed by the personal account trade approval panel (the "PA Approval Panel") typically on a weekly basis. Each principal and employee may submit no more than twenty pre-clearance requests per calendar month (a maximum of six of which can be trades requiring review by the PA Approval Panel); once an employee or principal has submitted the maximum number of pre-clearance requests, typically no further requests will be entertained from that individual until the following calendar month. The PA Approval Panel reviews the requests submitted to it, and any approved request is subject to certain restrictions on the timing of execution. In addition, BlueMountain enforces a 30-day minimum holding period for covered personal securities transactions.

BlueMountain monitors adherence to the personal trading policy via an automated system that seeks to compare personal trading activity with the submission and approval of pre-clearance requests. BlueMountain cross-checks the personal account statements with the approved trades list to ensure that all executed trades requiring pre-clearance were pre-approved.

## **Insider Trading/Material Non-Public Information; Privacy**

BlueMountain maintains an Insider Trading Policy that includes policies and procedures prohibiting the use of material non-public information that are designed to prevent the misuse of material, nonpublic information by BlueMountain and its officers, partners and employees. In accordance with these policies, to prevent trading of public securities based on material, non-public information, BlueMountain maintains, regularly updates and makes available on its intranet site a “restricted” securities list of companies about which non-compliance employees have, or are expected to have, material, non-public information.

BlueMountain has a separate privacy and data security policy, including a cybersecurity policy, designed to protect the security, confidentiality, and integrity of non-public, personal information of its clients and investors in such clients.

## **Political Contributions**

BlueMountain has policies in effect which restrict political contributions and related activities by its employees. In order to ensure compliance with applicable SEC rules and other applicable legal and regulatory requirements, all BlueMountain employees must obtain pre-clearance from the Chief Compliance Officer before any employee makes a contribution (whether it be a monetary contribution or a contribution of goods or services) to a political candidate, government official, political party or political action committee.

*BMCLC will provide a complete copy of the Code to any client or prospective client as well as to any investor in or prospective investor in a CLO, in each case, upon request. Such requests may be addressed to Eric Albert, Chief Compliance Officer, at 212-905-3900 and/or LegalNotices@bluemountaincapital.com.*

**B. If you or a *related person* recommends to *clients*, or buys or sells for *client* accounts, securities in which you or a *related person* has a material financial interest, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.**

**Examples: (1) You or a *related person*, as principal, buys securities from (or sells securities to) your *clients*; (2) you or a *related person* acts as general partner in a partnership in which you solicit *client* investments; or (3) you or a *related person* acts as an investment adviser to an investment company that you recommend to *clients*.**

From time to time, BlueMountain may cause an Advisory Client to buy or sell securities directly from or to another Advisory Client. With respect to any such transaction (i) the transaction must be effected at a price that is fair to Advisory Clients on both sides of the trade, (ii) neither BlueMountain nor any of its affiliates may receive any compensation for effecting the trade and (iii) the trade must be in the best interests of both Advisory Clients.

BlueMountain’s affiliates, and its and their principals, employees or other related persons may from time to time purchase interests in one or more CLOs, directly or through investment funds managed by BMCM which are invested in such CLOs, and such investments are subject to the management fee or performance-based fee rebates or offsets described above in Item 5.

BlueMountain generally does not engage in principal transactions (i.e., transactions where an adviser, acting as principal for its own account or that of an affiliate deemed proprietary to BlueMountain, buys from or sells any security to a client’s account). However, under certain circumstances, a cross trade with a fund in which BlueMountain and/or its controlling persons hold in excess of 25% of the interests may be deemed to be a principal transaction under Section 206(3) of the Advisers Act. The Chief Compliance

Officer (or his or her designee) may approve such deemed principal transactions provided that any such transaction is effected in compliance with Section 206(3) of the Advisers Act. With respect to any such transaction, prior to its completion, BlueMountain must disclose to the client in writing the capacity in which BlueMountain is acting (and any other requisite disclosures pursuant to Section 206(3) of the Advisers Act) and obtain the client's consent to the transaction. In cases where the client is a CLO, such disclosure may be made to, and consent to the transaction may be obtained from, the board of directors or board of managers of the CLO, as applicable, provided that (i) the applicable board includes one or more members who are independent of BlueMountain, and (ii) the consent of the board includes the unanimous consent of all such independent members. It is BlueMountain's policy that it will not effect any agency cross transactions for client accounts.

The fact that BlueMountain's related persons, in their capacities as general partners of certain Advisory Clients, and BlueMountain's principals, employees and other related persons have financial ownership interests in Advisory Clients (including the CLOs) creates a potential conflict in that it could cause BMCLO to make different investment decisions than it would if such parties did not have such financial ownership interests. BlueMountain may have an incentive to favor accounts in which such persons have an interest with respect to trading opportunities, trade allocation and allocation of investment opportunities.

BlueMountain has adopted rules intended to detect and prevent conflicts of interest that arise when BlueMountain's related persons own, buy or sell securities. The Code requires all BlueMountain employees to place the interests of BlueMountain clients first, and on an annual basis each BlueMountain employee must certify that he or she has read and understands the Code and has complied with its provisions. Each BlueMountain principal and employee is required to adhere to BlueMountain's personal trading rules. These rules require, except with respect to certain exempted transactions, that BlueMountain's principals and employees obtain pre-clearance pursuant to the approval process set forth in the Code before effecting any securities transaction for their own accounts, irrespective of whether the principal or employee is on notice that the security in question is the subject of a recommendation to a CLO or other Advisory Client. Each principal and employee may submit no more than twenty pre-clearance requests per calendar month (a maximum of six of which can be trades requiring review by the PA Approval Panel); once an employee or principal has submitted the maximum number of pre-clearance requests, typically no further requests will be entertained from that individual until the following calendar month. Principals and employees must arrange to have duplicates of certain brokerage statements or a quarterly holdings report provided to BlueMountain. The Chief Compliance Officer must make available duplicate copies of his brokerage statements or a quarterly holdings report for review by BlueMountain's General Counsel or members of BlueMountain's compliance staff. BlueMountain's personal securities transaction pre-clearance and reporting requirements are described in Item 11.A.

Additional conflicts are present in connection with the receipt by BMCLO or an affiliate of management and performance-based fees. Except inasmuch as performance affects asset size and thus the amount of the management fee, management fees are payable without regard to the overall success or income earned by CLOs and therefore may create an incentive on the part of BMCLO to raise or otherwise increase assets under management to a higher level than would be the case if BMCLO were receiving a lower or no management fee. Performance-based fees also create certain inherent conflicts of interest with respect to BMCLO's management of assets. Specifically, BMCLO's entitlement to a performance-based fee in managing one or more accounts may create an incentive for it to make investments that are riskier or more speculative than would be the case in the absence of such performance-based compensation.

**C. If you or a *related person* invests in the same securities (or related securities, e.g., warrants, options or futures) that you or a *related person* recommends to *clients*, describe your practice and discuss the conflicts of interest this presents and generally how you address the conflicts that arise in connection with personal trading.**

BlueMountain's employees are permitted to make securities transactions in their personal accounts, subject to certain limitations (including those discussed above in Item 11.A). This presents potential conflicts in that an employee could make improper use of information regarding a CLO's holdings or future transactions or research paid for by the CLOs. BlueMountain manages the potential conflicts of interest inherent in employee trading by strict enforcement of the Code, which includes pre-clearance and reporting requirements as described above in Item 11.A.

**D. If you or a *related person* recommends securities to *clients*, or buys or sells securities for *client* accounts, at or about the same time that you or a *related person* buys or sells the same securities for your own (or the *related person's* own) account, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.**

Please see Items 11.A, 11.B and 11.C.



## **Item 12 – Brokerage Practices**

**A. Describe the factors that you consider in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (e.g., commissions).**

**1. Research and Other Soft Dollar Benefits. If you receive research or other products or services other than execution from a broker-dealer or a third party in connection with *client* securities transactions (“soft dollar benefits”), disclose your practices and discuss the conflicts of interest they create.**

**a. Explain that when you use *client* brokerage commissions (or markups or markdowns) to obtain research or other products or services, you receive a benefit because you do not have to produce or pay for the research, products or services.**

**b. Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving the research or other products or services, rather than on your *clients*’ interest in receiving most favorable execution.**

**c. If you may cause *clients* to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), disclose this fact.**

**d. Disclose whether you use soft dollar benefits to service all of your *clients*’ accounts or only those that paid for the benefits. Disclose whether you seek to allocate soft dollar benefits to *client* accounts proportionately to the soft dollar credits the accounts generate.**

**e. Describe the types of products and services you or any of your *related persons* acquired with *client* brokerage commissions (or markups or markdowns) within your last fiscal year.**

**f. Explain the procedures you used during your last fiscal year to direct client transactions to a particular broker-dealer in return for soft dollar benefits you received.**

BMCLCO has authority for selecting the broker-dealer used in each transaction for CLOs and for negotiating the fees to be paid to the broker-dealer in connection with such transactions. In choosing brokers and dealers, BMCLCO is not required to consider any particular criteria. For the most part, BMCLCO seeks the best combination of brokerage expenses and execution quality but, as discussed below, BMCLCO is not required to select the broker or dealer that charges the lowest transaction cost, even if that broker provides execution quality comparable to other brokers or dealers. In evaluating “execution quality,” historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions is a principal factor, but other factors are also relevant, including: the execution, clearance, and settlement and error correction capabilities of the broker or dealer generally and in connection with loans or securities of the type and in the amounts to be bought or sold; the broker’s or dealer’s willingness to commit capital; reliability, responsiveness and financial stability of the broker dealer; the size of the transaction; and the market for the loan or security. In addition to execution quality, BMCLCO may consider whether a broker or dealer may provide access to management of companies in which BMCLCO or BMCM or its affiliates has invested or is considering investing on behalf of its clients, though such considerations are not typically a part of BMCLCO’s selection process. CLOs may pay commissions to such firms in an amount greater than the amount another firm might charge.

In addition to execution quality and access to management, BMCLCO may consider the value of various research products or services, beyond execution, that a broker-dealer provides to CLOs or BMCLCO. Selecting a broker-dealer in recognition of such other services or products is known as paying for those

services or products with “soft dollars.” Because such research products or services could benefit BMCLO or its affiliates, BMCLO may have a conflict of interest in allocating CLO brokerage business. BMCLO currently maintains no formalized “soft dollar” arrangements with broker-dealers but may do so in the future. With respect to any research products or services BMCLO may receive from broker-dealers, and in the event that BMCLO enters into any formalized “soft dollar” arrangements, BMCLO intends to keep the use of “soft dollars” within the parameters of Section 28(e) of the Securities Exchange Act of 1934. Research that is received by BMCLO or one of its affiliates may be used by personnel of BMCLO or BMCM or its affiliates, regardless of the investment strategy to which the research was initially intended to be applicable.

On a quarterly basis, the Chief Compliance Officer (or his or her designee) reviews the quality of BlueMountain’s execution and the effectiveness of its order execution arrangements and execution policy. From time to time trade errors may occur with respect to transactions made on behalf of Advisory Clients. Except as otherwise required by law or applicable contractual arrangement, only to the extent caused by its gross negligence, BlueMountain bears the cost of correcting trade errors.

**2. Brokerage for *Client* Referrals. If you consider, in selecting or recommending broker-dealers, whether you or a *related person* receives *client* referrals from a broker-dealer or third party, disclose this practice and discuss the conflicts of interest it creates.**

**a. Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving *client* referrals, rather than on your *clients’* interest in receiving most favorable execution.**

**b. Explain the procedures you used during your last fiscal year to direct *client* transactions to a particular broker-dealer in return for *client* referrals.**

In selecting broker-dealers and negotiating the fees to be paid to them, BMCLO takes into consideration the factors described in Item 12.A.1 above. BMCLO does not consider, in selecting or recommending broker-dealers, whether BMCLO or its related persons receive client referrals from a broker-dealer or third party.

As part of its broker selection analysis, BMCLO considers a broker-dealer’s ability to provide BMCLO with the opportunity to participate in capital introduction events sponsored by the broker-dealer and to refer investors to CLOs. BMCLO does not, however, select broker-dealers solely, or even largely, based upon such factors and does not direct CLO transactions to a particular broker-dealer in return for referrals. BMCLO recognizes that it may have an incentive to favor broker-dealers that provide capital introduction services to BMCLO or refer investors to CLOs. BMCLO receives asset-based fees and accordingly would receive a financial benefit from the increase in assets under management that results from capital introduction services and investor referrals. Similarly, BMCLO receives a performance-based fee and accordingly could receive a larger performance-based fee in any given profit period as a result of an increase in assets under management that results from capital introduction services and investor referrals. The potential for higher fees presents a potential conflict in that BMCLO has an incentive to favor broker-dealers that provide services that have a direct impact on fees even if those broker-dealers rate unfavorably in other categories that are part of BMCLO’s broker selection analysis. BMCLO addresses this potential conflict through its broker selection review process, which requires that key BMCLO individuals look at a broker-dealer’s performance in a wide variety of categories. Such reviews allow BMCLO to determine when broker-dealers that outperform in capital introduction and investor referrals underperform in other areas. In such situations, BMCLO may provide heightened scrutiny to a relationship with a broker-dealer.

### 3. Directed Brokerage.

**a. If you routinely recommend, request or require that a *client* direct you to execute transactions through a specified broker-dealer, describe your practice or policy. Explain that not all advisers require their *clients* to direct brokerage. If you and the broker-dealer are affiliates or have another economic relationship that creates a material conflict of interest, describe the relationship and discuss the conflicts of interest it presents. Explain that by directing brokerage you may be unable to achieve most favorable execution of *client* transactions, and that this practice may cost *clients* more money.**

**b. If you permit a *client* to direct brokerage, describe your practice. If applicable, explain that you may be unable to achieve most favorable execution of *client* transactions. Explain that directing brokerage may cost *clients* more money. For example, in a directed brokerage account, the *client* may pay higher brokerage commissions because you may not be able to aggregate orders to reduce transaction costs, or the *client* may receive less favorable prices.**

BMCLO does not have any directed brokerage arrangements.

**B. Discuss whether and under what conditions you aggregate the purchase or sale of securities for various *client* accounts. If you do not aggregate orders when you have the opportunity to do so, explain your practice and describe the costs to *clients* of not aggregating.**

BMCLO may but is under no obligation to combine orders on behalf of CLOs with orders for other accounts for which it or BMCM or its affiliates have trading authority, or in which it or its affiliates have an economic interest. In such cases, BMCLO allocates the securities or proceeds arising out of those transactions (and the related transaction expenses) in accordance with the Allocation Compliance Procedures. The Allocation Compliance Procedures are intended to ensure fair and equitable treatment of all Advisory Clients.

BMCLO will not aggregate transactions unless it believes that aggregation is consistent with its duty to seek best execution and is consistent with the terms of the investment guidelines and restrictions for each CLO for which trades are being aggregated. BMCLO will not receive any additional compensation or remuneration of any kind as a result of the proposed aggregation. While BMCLO believes combining orders in this way is, over time, advantageous to all participants, in particular cases the average price could be less advantageous to one CLO than if such CLO had been the only account effecting the transaction or had completed its transaction before the other participants.

BlueMountain seeks to confirm that the proper allocations are made across the Advisory Clients for all investment opportunities. However, should an error be made with respect to the allocation of a particular investment opportunity, BlueMountain may seek to correct such error, where possible, to put each Advisory Client involved in the same position it would have been if such error had not occurred.

Please see Item 6 for additional information regarding BMCLO's policy with respect to allocation of investment opportunities.

### **Item 13 – Review of Accounts**

**A. Indicate whether you periodically review *client* accounts or financial plans. If you do, describe the frequency and nature of the review, and the titles of the *supervised persons* who conduct the review.**

A portfolio manager of BMCLO generally reviews events relevant to the portfolios of each CLO each business day to determine if they are consistent with applicable investment objectives and restrictions. The portfolio managers will also consider whether, subject to the limitation set forth in the CLOs' indentures, the portfolio should change investments based on various factors, including but not limited to, changes in company fundamentals, advisers, key industry personnel, analysts, news and press releases, general market conditions and assessment of the financial consequences of world events derived from general information or such other material as is appropriate under the particular circumstances.

**B. If you review *client* accounts on other than a periodic basis, describe the factors that trigger a review.**

Please see Item 13.A.

**C. Describe the content and indicate the frequency of regular reports you provide to *clients* regarding their accounts. State whether these reports are written.**

Investors in CLOs generally receive reports at such frequency and including such information as is required in the applicable governing documents of such CLOs. Typically, investors will receive unaudited trustee reports monthly.

*CLO investors and prospective investors in CLOs should refer to the offering circular or other offering documents of the respective CLO for detailed information with respect to the reports they will receive in connection with an investment in such CLO. The information contained herein is intended as a summary of such offering documents and is qualified in its entirety by such documents.*

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

**A. If someone who is not a *client* provides an economic benefit to you for providing investment advice or other advisory services to your *clients*, generally describe the arrangement, explain the conflicts of interest, and describe how you address the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.**

BMCLO does not receive any monetary compensation or any other economic benefit from a non-client for BMCLO's provision of investment advisory services to a client.

**B. If you or a *related person* directly or indirectly compensates any *person* who is not your *supervised person* for *client* referrals, describe the arrangement and the compensation.**

With respect to each CLO, one or more parties may act as an "initial purchaser" or "placement agent" with respect to such CLO's issuance; however, such role terminates at the closing of the CLO, and no compensation paid in connection with such relationship is paid for client referrals.

### **Item 15 – Custody**

**If you have *custody* of *client* funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your *clients*, explain that *clients* will receive account statements from the broker-dealer, bank or other qualified custodian and that *clients* should carefully review those statements. If your *clients* also receive account statements from you, your explanation must include a statement urging *clients* to compare the account statements they receive from the qualified custodian with those they receive from you.**

BMCLO is not deemed, under federal securities laws, to have custody of the assets of its CLOs by virtue of its status as investment manager or collateral manager. BMCLO does not have actual physical custody of any CLO assets; the CLOs' assets are held in the custody of their respective trustees.

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

**If you accept *discretionary authority* to manage securities accounts on behalf of *clients*, disclose this fact and describe any limitations *clients* may (or customarily do) place on this authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).**

BMCLO provides investment management and supervisory services on a discretionary basis on behalf of its CLOs. As described in Item 4.C, the advisory services provided by BMCLO are tailored to the investment objectives, investment strategy and investment restrictions, if any, as set forth in the governing documents of CLOs and/or the investment management agreement entered into by BMCLO with such clients.

Please see Item 4 for additional information regarding BMCLO's advisory services.

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

**A. If you have, or will accept, authority to vote *client* securities, briefly describe your voting policies and procedures, including those adopted pursuant to SEC rule 206(4)-6. Describe whether (and, if so, how) your *clients* can direct your vote in a particular solicitation. Describe how you address conflicts of interest between you and your *clients* with respect to voting their securities. Describe how *clients* may obtain information from you about how you voted their securities. Explain to *clients* that they may obtain a copy of your proxy voting policies and procedures upon request.**

From time to time, an issuer of an equity security that is owned by a CLO will conduct a proxy solicitation of its shareholders to vote on various matters. BlueMountain has adopted policies and procedures for voting proxies received by CLOs. As a general rule, the investment management agreements between BMCLO and its advised clients delegate the power to vote such proxies to BMCLO.

BlueMountain's proxy voting procedures require that BMCLO vote proxies related to securities held by a CLO in a manner in the best interest of such CLO. As such, proxy votes generally will be cast in favor of proposals that maintain or strengthen the shared interests of shareholders and management and increase shareholder value. If the Chief Executive Officer (or his or her designee) determines that a material conflict may exist between a CLO's interests and BMCLO's interest or between two or more CLO's interests, the Chief Executive Officer (or his or her designee) is required to inform the Chief Compliance Officer of such material conflict and the Chief Compliance Officer then determines the appropriate course of action.

Information regarding how CLOs' proxies have been voted in the past and a copy of BMCLO's Proxy Voting Policies and Procedures will be provided by BMCLO to its clients upon request. BMCLO's compliance team may be contacted at 212-905-3900.

**B. If you do not have authority to vote *client* securities, disclose this fact. Explain whether *clients* will receive their proxies or other solicitations directly from their custodian or a transfer agent or from you, and discuss whether (and, if so, how) *clients* can contact you with questions about a particular solicitation.**

As a general rule, the investment management agreements between BMCLO and its advised clients delegate the power to vote such proxies to BMCLO.



## **Item 18 – Financial Information**

**A. If you require or solicit prepayment of more than \$1,200 in fees per *client*, six months or more in advance, include a balance sheet for your most recent fiscal year.**

**1. The balance sheet must be prepared in accordance with generally accepted accounting principles, audited by an independent public accountant, and accompanied by a note stating the principles used to prepare it, the basis of securities included, and any other explanations required for clarity.**

**2. Show parenthetically the market or fair value of securities included at cost.**

**3. Qualifications of the independent public accountant and any accompanying independent public accountant's report must conform to Article 2 of SEC Regulation S-X.**

Not applicable.

**B. If you have *discretionary authority* or *custody* of *client* funds or securities, or you require or solicit prepayment of more than \$1,200 in fees per *client*, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to *clients*.**

BMCLO is not currently aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its CLOs.

**C. If you have been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought, and the current status.**

BMCLO has not been the subject of a bankruptcy petition at any time during the past ten years (or at any time since inception).<sup>5</sup>

---

<sup>5</sup> BMCLO was founded in 2017.