



CIFC Asset Management LLC  
Part 2A of Form ADV  
The Brochure

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This brochure (the “**Brochure**”) provides information about the qualifications and business practices of CIFC Asset Management LLC (“**CIFC**”) and CIFC’s relying advisers, CIFC CLO Management LLC (“**CLO Manager**”), CIFC CLO Management II LLC (“**CLO Manager II**”), CIFC VS Management LLC (“**CLO Manager VS**”) and CIFC Asset Management Europe Ltd (“**CIFC Europe**”) and is delivered to you pursuant to Rule 204-3 under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). If you have any questions about the Brochure’s contents, please contact Julian Weldon, CIFC’s Chief Compliance Officer (“**CCO**”), at [jweldon@cifc.com](mailto:jweldon@cifc.com) or (212) 624-1200. 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 CIFC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). CIFC’s registration with the SEC as an investment adviser does not imply a certain level of skill or training.

This Brochure is necessarily general in nature and qualified in its entirety by the offering memorandum or other disclosure document for the CIFIC program in which you are invested or considering for investment, which you should carefully read before investing or making other investment decisions regarding the program.

When this Brochure refers to “**clients**,” it is referring only to direct clients and not, in the case of clients that are commingled investment vehicles, to the investors in those vehicles.

Any statements herein that are not historical facts are based on current expectations, speak only as of the date of the first page, and are susceptible to various risks and uncertainties. The actual results of investment programs may differ materially from results that might be inferred from such forward-looking statements. Many factors could cause such differences, including dislocations in credit markets, liquidity and volatility in those markets, changes in interest rates or the general economy, changes in governmental regulations or taxation rates, the availability of investment opportunities, and the degree and nature of competition. New risks and uncertainties, which cannot be predicted, may occur. CIFIC assumes no obligation to update any forward-looking statements except as required by federal securities laws.

The information herein is current as of the date hereof. The delivery of this Brochure after that date does not imply that the Brochure is current as of that later date.

## Item 2. Material Changes

This document is an other-than-annual update of CIFIC's Brochure. It amends and restates the Brochure dated March 2020.

The following is a summary of the material changes since the annual update of our Brochure in March 2019:

- CIFIC assumed management of Logen Asset Management Partners L.P., Logen Asset Management Offshore Fund Ltd., Logen Asset Management Intermediate Fund Ltd. and Logen Asset Management Master Fund Ltd. (the “**Logen Funds**”) from Logen Asset Management LP as of October 2018. As of July 31, 2019, the Logen Funds dissolved and commenced the winding up of affairs; in connection with this dissolution and winding up, all remaining assets were transferred to a new fund managed by CIFIC, CIFIC Event Driven Opportunities Fund.

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## Item 4. Advisory Business

### Ownership and structure

CIFC and its affiliated investment advisers, CIFC Investment Management LLC (formerly known as Deerfield Capital Management LLC) (“**CIM**”), CLO Manager VS and CIFC Europe are indirect wholly-owned subsidiaries of CIFC LLC. CLO Manager, CLO Manager II, CLO Manager VS and CIFC Europe are registered with the SEC as “relying advisers” on CIFC’s Form ADV and therefore this Brochure shall also serve as the Brochure for the relying advisers. CIM is separately registered with the SEC as an investment adviser. You can obtain a copy of CIM’s Brochure through the Investment Adviser Public Disclosure page. This Brochure refers to the six advisers collectively as the “**Advisers**.”

CIFC LLC was formerly publicly listed on the NASDAQ stock market under the “CIFC” symbol. On November 21, 2016 (the “**Effective Date**”), pursuant to an Agreement and Plan of Merger dated August 19, 2016, among CIFC LLC, Centricus Holdings I LP (formerly known as F.A.B. Holdings I LP) (“**Parent**”) and CIFC Acquisition, LLC, a wholly-owned subsidiary of Parent (“**Merger Sub**”) and in accordance with the laws of the State of Delaware, Merger Sub was merged with and into CIFC LLC (the “**Merger**”), with CIFC LLC surviving the Merger as a wholly owned subsidiary of Parent.

Stephen Vaccaro is CIFC’s Chief Executive Officer and Chief Investment Officer.

The Advisers’ employees are involved in the portfolio management and related servicing of all or most of their clients and the Advisers share all investment management functions, including a single Investment Research team, a single Portfolio Management team and a single Trading team (see Item 13) and a joint Code of Ethics (see Item 11). The Advisers will provide each client with the applicable Brochure Supplements containing the names and experience for the principal members of the Investment Research team and Portfolio Management team.

### General description of advisory business

The Advisers are predominantly in the U.S. corporate and structured credit asset management business. The Advisers employ an investment approach that includes a disciplined assessment of fundamental credit, appropriateness of capital structure, collateral protection and loan agreement terms. In addition, the Advisers utilize internally-developed risk ratings based on individual obligor assessment without undue reliance on credit rating agencies, diversified investment portfolios by avoiding concentration imbalances, on-going active portfolio management and utilization of industry best practices and proprietary tools. As part of ongoing portfolio management, the Advisers continuously re-assess and adjust the investments held by each client by identifying relative value differentials, market inefficiencies and technical imbalances.

The substantial majority of clients are pooled investment vehicles that are collateralized loan obligation funds (“**CLOs**”) where the fund invests principally in senior secured corporate loans (“**SSCLs**”). In addition, the Advisers manage certain open and closed-end funds and accounts that invest in corporate loans, high-yield bonds, CLO warehouses, CLO bonds and CLO equity. Finally, CIM manages a pooled investment vehicle that invests in corporate bonds and asset-backed securities that is a collateralized debt obligation vehicle (“**CDO**”) and provides investment

advisory services as a sub-adviser to two investment companies registered under the Investment Company Act of 1940, as amended (“**Investment Companies**”). Certain of the Advisers also manage other private investment funds and managed accounts. CIFIC has been in the advisory business since 2005 and CIM since 1996.

In addition, to comply with Risk Retention Requirements<sup>1</sup>, CLO Manager and CLO Manager II were formed and became relying advisers of CIFIC in March 2017 and July 2017, respectively. CLO Manager and CLO Manager II’s primary business consists of (i) acting as collateral manager of CLO transactions and related warehouse facilities; (ii) engaging in related loan origination and/or trading activities including, but not limited to, originating loans for its own account as an “originator” for the purposes of the European Retention Requirements; (iii) acting as the holder of CLO securities for the purpose of complying with (a) the U.S. Retention Requirements<sup>1</sup> (“**U.S. Retention Interests**”) and (b) the European Retention Requirements (“**E.U. Retention Interests**”, and collectively with the U.S. Retention Interests, the “**Retention Interests**”); and (iv) providing first-loss equity in connection with warehouse facilities entered into by the Advisers. CLO Manager VS was formed and became a relying adviser of CIFIC in August 2017; it is the collateral manager of certain CLOs that were reset, reissued, or refinanced and issued vertical strips to satisfy U.S Retention Requirements.

On February 9, 2018, the D.C. Circuit Court of Appeals made a unanimous decision to vacate “skin in the game” rules for U.S. CLO managers. As the government did not appeal this decision, CLO managers were able to issue open-market CLOs without holding retention interests as of April 5, 2018 (the “**Reversal**”). The reversal of the U.S Retention Requirements had the following impact on the business:

- No impact on CLO Manager as its clients exited their reinvestment periods prior to the Reversal
- No impact on CLO Manager II as it is still making deals compliant with European Retention Requirements
- No impact on CLO Manager VS as it will continue to manage the CLOs it currently manages
- It’s much easier for CIFIC Asset Management LLC to refinance and reset existing CLO issues

CIFIC assumed management of Logen Asset Management Partners L.P., Logen Asset Management Offshore Fund Ltd., Logen Asset Management Intermediate Fund Ltd. and Logen Asset Management Master Fund Ltd. (the “**Logen Funds**”) from Logen Asset Management LP as of October 2018. As of July 31, 2019, the Logen Funds dissolved and commenced the winding up of their affairs; in connection with this dissolution and winding up, all remaining assets were

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<sup>1</sup>The applicable European risk retention requirements include those promulgated under: (a) Part Five of EU Regulation No. 575/2013 together with any regulatory and/or implementing technical standards and guidance relating thereto as amended, replaced or supplemented from time to time (“**CRR Retention Requirements**”); (b) EU Directive 2011/61/EU (“**AIFMD Retention Requirements**”); and (c) Commission Delegated Regulation (EU) 2015/35 (“**Solvency II Retention Requirements**” and, together with the CRR Retention Requirements and the AIFMD Retention Requirements and other applicable European risk retention rules, the “**European Retention Requirements**”). The U.S. risk retention rules are those promulgated under Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “**U.S. Retention Requirements**” and together with the European Retention Requirements, the “**Risk Retention Requirements**”).

transferred to a new fund managed by CIFIC, the CIFIC Event Driven Opportunities Fund.

#### Principal owners

CIFIC and CLO Manager VS are directly owned 100% by CIFIC Asset Management Holdings LLC, which is indirectly owned 100% by CIFIC LLC. CIFIC Europe is directly owned 100% by CIFIC International Holdings I Ltd. CLO Manager and CLO Manager II are each indirectly held by CIFIC Strategic Partners LP (“**Strategic Partners**”) and CIFIC Strategic Partners II LP (“**Strategic Partners II**”), respectively (together, the “**Risk Retention Funds**”). The Risk Retention Funds hold CIFIC and third-party capital.

On the Effective Date, CIFIC LLC was acquired by Centricus Holdings I LP (formerly known as F.A.B. Holdings I LP) (“**Centricus Holdings**”), which is owned by Centricus Financial Investments LP (formerly known as F.A.B. Financial Investments LP) (“**Centricus Financial**”) and certain members of CIFIC management. Centricus Financial is majority-owned by Supreme Universal Holdings Ltd., and Hamad Bin Khalifa Al-Thani is the sole member thereof. The general partner of both Centricus Holdings and Centricus Financial is Centricus Financial Investments GP Limited.

#### Type of advisory services that are offered

The Advisers are in the corporate and structured credit asset management business combining credit practices of banks and asset managers. They serve as the investment manager primarily for (i) various CLOs and other investment funds, including private investment funds, and, in the case of CIM, a CDO (collectively, “**funds**”); and (ii) other loan-based and structured credit-based products and accounts (collectively, “**other accounts**”). Additionally, CIFIC provides sub-advisory services to other investment advisers (together with the funds and other accounts, the “**client accounts**”), and accordingly provides investment supervisory services to each client account. The Advisers invest the client accounts’ assets primarily in (a) SSCLs and equivalent exposures in the primary and secondary markets, (b) CLO warehouses, CLO bonds and CLO equity and (c) high-yield bonds.

The Advisers currently have discretionary trading authority over the client accounts they manage, except for certain of the client accounts for which they provide only limited services.

#### How advisory services are tailored to clients’ needs

The Advisers tailor their advisory services to the individual needs of their client accounts. Generally, at the time a client account is structured and opened, there is discussion between the Adviser and the client account, and those that invest in the client account, regarding the investment strategy and risk, investment restrictions and investment structure and on other aspects of the Advisers’ management of the client account’s portfolios.

#### Amount of client assets under management (“**AUM**”)

As of December 31, 2019: (a) CIFIC, CLO Manager, CLO Manager II, CLO Manager VS and CIFIC Europe together managed \$25,585,361,550 of client assets on a discretionary basis<sup>2</sup> and

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<sup>2</sup> AUM of CIFIC, CLO Manager, CLO Manager II, CLO Manager VS and CIFIC Europe are combined because CLO Manager, CLO Manager II, CLO Manager VS and CIFIC Europe are registered with the SEC as “relying advisers” on CIFIC’s Form ADV.

(b) CIM managed \$192,399,615 of client assets on a discretionary basis. Total AUM of the Advisers was \$25,777,761,165 at December 31, 2019.

#### Other

In addition to the services described above, CIFIC provides limited administrative services with respect to two accounts. Services provided include, but are not limited to, tracking and reporting of purchase and sale transactions, and interest and fee payments due and received. Additionally, on a monthly basis, CIFIC provides portfolio performance information and loan market commentary.

The Advisers do not currently engage in business activities other than investment management and other ancillary activities related thereto. The Advisers do not currently provide financial planning or similar services nor participate in wrap fee programs.

CIFIC LLC's website, [www.CIFIC.com](http://www.CIFIC.com), contains additional information about the Advisers that may be useful to you.

### **Item 5. Fees and Compensation**

The Advisers' fees are negotiable and typically include, in the case of CLOs, a senior management fee, a subordinated management fee and incentive management fees and in the case of non-CLO client accounts, management fees and/or incentive fees. Fees are not required to be paid in advance and the Advisers do not have a set fee schedule. Specific fee rates and the methodology for calculating fees are agreed to at the time a particular client account is established, are described in each client account's investment advisory agreement, and remain for the life of the client account. The fees are typically determined and paid quarterly (other than incentive management fees, which are paid only following satisfaction of certain investment performance criteria), and generally calculated as a percentage of AUM or the net asset value for the particular client account. However, once a client account is established, fees for the life of such client account are not negotiable, but an Adviser may in its discretion waive or reduce all or part of its fees. The Advisers may also waive or reduce all or part of their fees for employees of the Advisers.

The Advisers' fees are described in each client account's offering document (if applicable) and other constituent documents of such client account, which are finalized when the client account is established. Fees are determined periodically (typically quarterly in arrears) by the client account's administrator and/or custodian, with the exception of some client accounts that require the Advisers to calculate the fees (based on the specific fee rates and methodology in each client account's constituent documents), and paid by the administrator and/or custodian or the Adviser (if no administrator or custodian) on behalf of the client account to the Adviser. Fees are deducted from client assets by the administrator, custodian and/or Adviser ((if no administrator or custodian).

In accordance with the negotiated terms of the Advisers' investment advisory agreements with clients, the applicable client accounts generally reimburse the Advisers from time to time for certain out-of-pocket expenses related to the services provided by the Advisers and third parties



to the relevant client account. Among other things, clients may reimburse the Advisers for fees and expenses relating to operations including legal, government fees, registered office fees, accounting bookkeeping, auditing, banking, brokerage, finders, administrator, consultant, rating agency, asset assignment and settlement, tax preparation and filing, independent appraiser or other professional expenses, expenses relating to compliance-related matters and regulatory filings (including, without limitation, regulatory filings, reporting and ongoing compliance requirements of a client and its affiliates relating to a client and its activities, if applicable), custodial or depositary fees, bank service fees, trade execution and settlement fees, brokerage commissions, filing and registration fees, reporting expenses, research expenses, investment pricing and valuation services (e.g., Bloomberg and Markit), investment administrative systems, software license and information technology expenses related to the making, holding, monitoring and disposing of investments, including licensing and maintenance fees, payments made to consultants and costs and expenses for research-related market data, portfolio management services, charges, duties, fees and any other costs (including broken-deal costs), incurred in acquiring, holding, selling or otherwise managing or disposing or hedging against any changes in the value of a client's assets or investment opportunities, income withholding or transfer taxes, litigation and other extraordinary expenses, and any other out-of-pocket, third-party expenses that the Advisers determine to be allocable to a client, if any. A service provider may be affiliated with the Advisers, in which case the Advisers use commercially reasonable efforts to ensure that the services are on terms that are no less favorable than would apply in an arms-length transaction. Expenses are allocated among client accounts quarterly, typically based on each client account's AUM for the previous quarter. Such allocations may not necessarily be on a pro rata basis and a client may bear more than its pro rata share of expenses. Expenses payable by a client may be more or less than the allocation of expenses by other comparable investment advisers.

The Advisers' clients generally pay other fees and expenses in connection with the Advisers' advisory services relating to the establishment or ongoing operation of the relevant client account. The types of such fees and expenses depend on the nature of the client account and the written agreement with the client. The additional fees and expenses may include those of a trustee, custodian, collateral administrator, administrator, accountants, lawyers, registered agent, rating agencies and regulators. If the client account is an investment fund, the additional fees may include certain of the above fees and also franchise taxes, ongoing entity maintenance fees payable in jurisdictions where the applicable fund is organized and/or doing business, securities brokerage commissions and fees of independent directors/managers, auditors and consultants. Clients will also in effect bear the costs of bid/ask spreads or other markup typically charged by loan and securities dealers on transactions.

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

In addition to management fees, the Advisers' fees generally include performance incentive fees. Performance incentive fees are measured and paid periodically, and are determined typically based on: (a) an additional percentage of AUM after the client account reaches a performance hurdle, and/or (b) a specified percentage of remaining investment proceeds above a separate performance hurdle. Typically, the performance hurdles for these calculations are determined based on proceeds from the fund investments resulting in the fund investors (or, in the case of CLO clients, residual interest tranche investors (i.e., the "equity" investors in the

fund)) receiving a cash-on-cash return or an internal rate of return (“IRR”) above specified percentages on their net invested capital.

When the Advisers manage client accounts with similar strategies (which thus might “compete” with each other for investment opportunities or otherwise), those client accounts may be charged different types and/or levels of fees. For example, some of the client accounts may be charged only a management fee and others also a performance incentive fee. A portfolio manager for certain client accounts with similar strategies has and may receive performance-based compensation from the Advisers with respect to some of the client accounts but not others.

If an Adviser charges your account a performance incentive allocation or fee, it may have an incentive to trade the account more aggressively and/or take more risk in relation to the account assets than in the absence of a performance incentive fee. The Advisers may have an incentive to favor the client account that is also charged a performance incentive fee (or the portfolio managers for the client accounts may have an incentive with respect to the client accounts for which they receive performance-based compensation from us). The Advisers have addressed this potential conflict mainly by following their policies regarding equitable allocation of investment opportunities and transaction executions among similar-strategy client accounts.

## **Item 7. Types of Clients**

The Advisers primarily provide investment management services to pooled investment vehicles that are CLOs and to private funds and investors that invest in corporate and structured credit. CIFIC also provides investment advice to other types of investors, generally through separately managed accounts or non-CLO private investment funds, and CIM provides investment management services to a CDO and Investment Companies (pursuant to a sub-advisory arrangement with the Investment Companies’ investment advisers).

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

### Methods of the Advisers’ investment analysis

The Advisers are U.S. CLO, corporate and structured credit managers that strive to provide best-in-class processes and controls and transparency to investors by combining best credit practices of banks and asset managers. The Advisers employ an underwriting process focused on the fundamental value of investment opportunities, typically strive to maintain diversified portfolios (depending on a client account’s particular investment objectives) and re-assess and rebalance portfolios through relative value analysis and trading.

With respect to loan-based funds and accounts, while client account investment objectives differ, typically the Advisers focus on loan repayment by borrowers, in contrast to dependency on investment sales as a primary risk management tool, as well as disciplined portfolio diversification and overlays of relative value and portfolio rebalancing to enhance the risk profile of a particular client account. To those ends, the Advisers typically seek loans with robust recovery values. Rather than relying on the views of rating agencies or implied signals from market prices, the Advisers’ credit analysis focuses on industry, the relevant borrower’s

business, management capabilities, debt service capacity, legal structure, collateral value and use of proceeds.

With respect to client accounts that invest in CLO securities, while client account investment objectives differ, typically the Advisers focus on a fundamental credit analysis of the underlying portfolios, overlaying relative value, manager liquidity, diversification and portfolio rebalancing to enhance the risk profile of a particular client account. Rather than relying on the views of rating agencies or implied signals from market prices, the Advisers use their knowledge of the underlying collateral portfolios and CLO structures to select CLO investments with solid credit attributes.

The Advisers' fundamentals-based investing strategy incorporates an overlay of relative value trading and portfolio rebalancing to reassess investments in client accounts. In so doing, the Advisers seek to identify relative value differentials, market inefficiencies and technical imbalances in order to arbitrage differences between expected recovery rates and market prices, to build loss reserves, and to take defensive or other actions.

The Advisers typically sell loans and/or CLO securities when more attractive investments can be purchased at comparable price points to optimize portfolio composition and target performance. In addition, the Advisers have dedicated "Special Situations" investment professionals who manage any loan workouts and defaults. Within their diligent, detail-oriented management process, the Advisers also prioritize concentration and correlation avoidance and re-assess investments relative to the target investment criteria of each client account.

The Advisers invest predominantly in SSCLs. The client accounts they currently manage are primarily CLOs, as well as private investment funds and other loan-based client accounts, that invest in SSCLs, with limited investments in high-yield bonds, senior unsecured or senior subordinated term loans, and, in each case, participations in the foregoing. Most of these bonds and loans have been originated by banks and other financial institutions.

The Advisers and their affiliates also may invest in CLO debt and equity securities and warehouses, including those of CLOs and warehouses managed by one or more of the Advisers. CIM manages a CDO that invests in asset-backed securities (securities for which the underlying collateral consists of assets such as credit card receivables, home equity loans, leases, commercial mortgage loans and debt obligations) and provides investment advisory services to two Investment Companies. Catalyst/CIFC Floating Rate Income Fund is an open-end mutual fund that invests primarily in SSCLs; its investment adviser is Catalyst Capital Advisors LLC. City National Rochdale Strategic Credit Fund is a non-diversified, closed-end interval investment company that invests in CLOs; its investment adviser is City National Rochdale, LLC.

The Advisers may also invest in other financial instruments, such as government securities, interest rate and credit default swaps, interest rate or other options, futures or forwards, mortgage-backed securities, distressed securities, foreign exchange, structured finance obligations (such as collateralized bond obligations, collateralized loan obligations, and collateralized debt obligations), CLO equity and subordinated debt and mezzanine loans.

Interests in funds managed by the Advisers are offered to investors pursuant to disclosure documents that contain detailed information about the risks of investing in the funds, including

the risks relating to the securities issued to investors by the funds and those relating to the underlying assets held by the funds. With respect to each fund the Advisers manage, the summary of fund investment risks in this Brochure is qualified in its entirety by the disclosure document for the particular fund. You should carefully review each fund's offering circular before investing in the fund or making an investment decision to buy, sell or hold the securities issued by the fund.

#### Methods of the Advisers' investment strategies

The Advisers' investment strategies generally involve those described in "Methods of the Advisers' investment analysis" above, as well as modeling and stress testing of investment portfolios, portfolio diversification across issuers and industries, and ongoing risk monitoring of portfolio holdings. The Advisers may in some cases seek enhanced returns through tactical or opportunistic trading that seeks to capitalize on pricing inefficiencies with respect to the rating, credit quality and/or seniority in the issuer's capital structure of the related loan or other credit product.

The Advisers also may employ leverage in managing client accounts. CLOs are levered investment vehicles and other client accounts may or may not employ leverage depending on a particular client account's investment objectives. In connection with any leverage utilized, the Advisers may secure the account's obligations with respect thereto with any and all of the account's assets, pursuant to a pledge or other security agreement on terms that the Advisers determine are fair and reasonable to the account. If the account were to default on its obligations under such transactions, the counterparty could foreclose on the collateral and take possession of the account's assets for purposes of repaying debt. The terms of any leverage utilized are likely to impose significant restrictions on the account's operations and investment objectives, including as to the account's ability to incur additional leverage and engage in certain transactions.

#### General investment risks

All investing in securities involves risk of loss that you should be prepared to bear. The Advisers may, on behalf of their clients, invest in securities that are subject to credit, liquidity, interest rate and exchange rate risks, general economic conditions, operational risks, structural risks, the condition of financial markets, political events, developments or trends in any particular industry, changes in prevailing interest rates and periods of adverse performance. Please see the relevant offering memorandum or other disclosure document for the CIFC program in which you are invested or considering for investment for a more detailed discussion of risks.

#### Risks of the Advisers' investment analysis methods

The Advisers consider the material risks of their investment analysis methods to include the unpredictability of general economic, financial, industry and issuer-specific conditions and lack of sufficient financial information.

#### Role of the Advisers' professionals

The success of an account will depend in part upon the skill and expertise of the Advisers' professionals and their ability to direct investments. There can be no assurance that such professionals will continue to be associated with the Advisers throughout the life of an account. Competition in the financial services industry for qualified employees is intense, and there is ever

increasing competition among alternative asset firms, financial institutions, private equity firms, investment managers and other industry participants for hiring and retaining qualified investment professionals. The Advisers' continued ability to effectively manage accounts depends on the Advisers' ability to attract new employees and to retain and motivate its existing employees. The loss of the services of one or more of such persons could have an adverse impact on the Advisers' ability to realize the investment objectives. Moreover, although the Advisers expect to have access to all of the appropriate resources, relationships and expertise of their professionals, there can be no assurance that such resources, relationships and expertise will be available for every transaction. In addition, investment professionals and committee members are permitted to be replaced or added at any time. The Advisers' professionals involved with the accounts are not dedicated exclusively to the accounts and will have other responsibilities for the Advisers. The Advisers will be dependent to a substantial degree on the continued services of certain senior investment professionals employed by the Advisers. In the event of death, disability or departure from the Advisers of such persons, the performance of the accounts may be adversely impacted. Conflicts of interest arise in allocating management time, services and functions, and the ability of the members of an account team to have access to other professionals and resources within the Advisers may be limited. In addition, such access is permitted to be limited by the internal compliance policies of the Advisers or other legal or business considerations, including those constraints generally discussed herein.

#### Risks of the Advisers' allocation discretion

In allocating a new investment opportunity among client accounts that are eligible to invest in it, the Advisers will endeavor, in their judgment and on an overall basis, to treat each client account in a manner the Advisers consider equitable in light of all relevant factors. These factors may include differences in investment objectives, guidelines and current investment strategies; the relative sizes, available cash, investment capacities and age/vintage of the client accounts (including whether a client account is in its "warehousing" or "ramp" phase or is or near the end of its reinvestment period); differences in contractual restrictions and requirements among the client accounts; efficient transaction sizes; whether certain accounts would receive a de minimis or odd lot allocation; tax, legal and regulatory considerations; and the relative positions of the client accounts in terms of portfolio ramping. For example, newly created client accounts (including warehouses, CLOs, managed accounts or any other investment product) typically go through an initial, temporary period in which they acquire more investments than usual. This period is generally referred to as the "ramp" or "ramping period", and represents the period during which the account becomes fully invested. The Advisers may over-allocate investment opportunities, particularly new issue SSCL opportunities, to a ramping client account.

#### Risks of investing in client accounts

The material risks of investing in non-CLO loan-based client accounts include lack of liquidity of the interests, the limited recourse nature of the interests, the uncertainty of payments on the interests, and the risks related to the underlying SSCLs described in more detail below.

The material risks of investing in CLOs generally consist of those relating to the securities issued to investors by the CLOs and the underlying SSCLs and other investments held by the CLOs. These risks typically include the lack of liquidity of the interests, their subordination to more senior interests in the CLO's capital structure, the limited recourse nature of the interests, and the uncertainty of the CLO making payments on the interests as described in more detail below.

### Risks of event-driven investing

Certain client accounts may make investments in issuers that are involved in, or are the target of, acquisition attempts or tender offers, or issuers that are involved in work outs, liquidations, spin offs, reorganizations, asset sales, changes in control, distributions, bankruptcies and similar transactions. The client accounts may make certain investments in anticipation of such events. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the client of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, clients may be required to sell their investment at a loss.

Event-driven investing requires the Advisers to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of an issuer's financial instruments. If the event fails to occur or it does not have the effect foreseen, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by an issuer may not be valued as highly by the market as the Advisers had anticipated, resulting in losses. In addition, an issuer may announce a plan of restructuring which promises to enhance value, but fail to implement it, which can result in losses to clients. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a regulatory agency; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable securities laws; and (vii) inability to obtain adequate financing.

### Risks of investing in non-controlling investments

Certain clients may hold less than 50% of the outstanding voting interests of any portfolio investment, or may hold investments in debt instruments or other securities that do not entitle the client to voting rights, and, therefore, may have a limited ability to protect their investments.

In these non-controlling investments, clients may have no right to appoint a director and to influence management. Similarly, clients may co-invest with third parties through joint ventures, other entities or similar arrangements, thereby acquiring non-controlling interests in certain investments. In such cases, clients will be significantly reliant on the existing management, board of directors (or trustees) and other stakeholders or noteholders of such investments, which may include representation of other financial investors with whom the Advisers are not affiliated and whose interests may conflict with the interests of clients.

In addition, portfolio companies may need to attract, retain and develop executives and members of their management teams. The market for executive talent can be, notwithstanding general

unemployment levels or developments within a particular industry, extremely competitive. There can be no assurance that portfolio companies will be able to attract, develop, integrate and retain suitable members of its management team and, as a result, the client may be adversely affected thereby.

Moreover, in the case where a client may co-invest, such investments may involve risks not present in investments where a third party is not involved, including the possibility that a third party partner or co-investor may have financial difficulties resulting in a negative impact on such investment, may have economic or business interests or goals which are inconsistent with those of clients, may be in a position to take (or block) action in a manner contrary to the client's investment objectives, or the increased possibility of default, diminished liquidity or insolvency by the third party partner or co-investor due to a sustained or general economic downturn. In addition, clients may in certain circumstances be liable for the actions of their third-party partners or co-investors. Investments made with third parties in joint ventures or other entities also may involve compensation arrangements including carried interests and/or other fees payable to such third-party partners or co-investors, particularly in those circumstances where such third-party partners or co-investors include a management group.

#### Risks of making investments longer than the term of a client account

Certain client accounts may make investments that may not be advantageously disposed of, or may not reach their maturity, prior to the date the fund is dissolved or client account is wound up, either by expiration of the fund's or account's term or otherwise. Although the Advisers expect that investments generally will mature or be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, the Advisers may have limited ability to extend the term of the account and the account may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. In addition, although upon the dissolution of a fund, the Advisers (or the relevant liquidators through a liquidating trust) may be required in accordance with applicable law to reduce to cash and cash equivalents the assets of the fund, due to the nature of the assets held by the fund, there can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to the client will occur. In some circumstances, the Advisers may determine to restructure or refinance investments in a manner that would extend their maturity, including after the investment period of the fund or account. In some instances, the client accounts may have a limited remaining term or limited liquidity and borrowers may desire that affiliates of the client refinance debt obligations, which would create conflicts of interest with respect to such transaction. There is no guarantee that such conflicts would ultimately be resolved in the interests of any particular client.

#### Risks of investing in SSCLs and other bank loans

##### *General*

The substantial majority of the investments managed by the Advisers are SSCLs, which are debt obligations that typically pay interest based upon floating rates. During periods of rising interest rates, the total payment obligations of the borrowers, issuers or obligors of floating rate debt will increase, perhaps significantly. This in turn could lead to an increase in default rates on such investments.

The investment risks of SSCLs and other bank loans include limited liquidity and secondary

market support, the limited supply of some new issue bank loans, the possibility that earnings of the loan obligor may be insufficient to meet its debt service obligations, the declining creditworthiness and potential for insolvency of the obligor of bank loans during periods of economic downturn, spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received, and if subordinated, subordination to the prior claims of other loans or senior lenders. An economic downturn could severely disrupt the market for bank loans and adversely affect the value of outstanding bank loans and the ability of the obligors to repay principal and pay interest. SSCLs are rated below investment grade and thus have greater credit and liquidity risk than investment grade obligations.

#### *Credit Risk / Defaults & Recoveries*

SSCLs may become non-performing for a variety of reasons and as a result may require substantial workout negotiations or restructuring that may include a substantial reduction in the interest rate, a substantial reduction of the principal or a substantial extension of the amortization or maturity date of the relevant loan. Any such event will likely cause a significant decrease in the interest collections on the relevant loan and or a significant decrease in the principal collections on the relevant loan.

If a default occurs with respect to an SSCL, and the holder of the SSCL sells or otherwise disposes of the SSCL, the proceeds of the sale or disposition will likely be less than the unpaid principal and interest thereon.

Historical information regarding default and recovery rates of SSCLs is limited. Actual default and recovery rates could vary significantly from historical observations. Historical information on the market value volatility of SSCLs is limited, and SSCLs could be subject to market volatility not apparent from historical volatility studies. Such volatility could be significant at times.

#### *Issuer Insolvency*

If a court in a lawsuit brought by a creditor or representative of creditors (such as a trustee in bankruptcy) of an issuer of investments were to find that (a) such creditor did not receive reasonably equivalent value for incurring the indebtedness evidenced by the loans that the company issued to the client account and (b) after giving effect to such indebtedness and the use of the proceeds thereof, such company (i) was insolvent, (ii) was engaged in a business for which its remaining assets constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, subordinate such indebtedness to existing or future creditors of the obligor or recover amounts previously paid by such company to the client account in satisfaction of such indebtedness.

In addition, upon the insolvency of an issuer, payments that it made to a client account may be subject to avoidance as a “preference” if made within a certain period of time (which may be as long as one year in the case of the U.S. issuers) before insolvency. There can be no assurance as to what a given court would apply in order to determine whether the company was “insolvent” or that, regardless of the method of valuation, a court would not determine that the company was “insolvent,” in each case, after giving effect to the indebtedness evidenced by the loans held by the client account and the use of the proceeds thereof. While the Adviser may be able to assert



certain defenses to any such avoidance claims, the outcome of such claims is within the discretion of the bankruptcy court and is therefore inherently incapable of being predicted.

In general, if payments are voidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as the client account) or from subsequent transferees of such payments, including the client accounts' affiliates.

The above discussion is based upon U.S. federal and state laws. Insofar as investments that are obligations of non-U.S. obligors are concerned, the laws of these jurisdictions may provide for avoidance remedies under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under U.S. federal and state laws.

### *Participations and Assignments*

Certain client accounts may purchase an assignment of, or a participation in, an SSCL issued under a loan facility to which more than one lender is a party. These loan facilities are most often administered by agent lenders on behalf of the lenders pursuant to a loan agreement. Consequently, the client may be outvoted by a majority or supermajority of the lenders under such loan agreement in relation to consents and/or amendments thereunder. Additionally, by holding a participation in a loan, a client will not have privity with the borrower, no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set off against the borrower, and will not benefit from the collateral supporting the loan in which it has purchased the participation.

The purchaser of an assignment of an interest in a loan typically succeeds to all the rights and obligations of the assigning selling institution and becomes a lender under the loan agreement with respect to that loan. As an assignee, a client generally will have the same voting rights as other lenders under the applicable loan agreement, including the right to vote to waive enforcement of breaches of covenants or to enforce compliance by the borrower with the terms of the loan agreement, and the right to set off claims against the borrower and to have recourse to collateral supporting the loan. Assignments are, however, arranged through private negotiations between assignees and assignors, and in certain cases the rights and obligations acquired by an assignee may differ from, and be more limited than, those held by the assigning selling institution.

Assignments and participations are typically sold strictly without recourse to the selling institutions, and the selling institutions will generally make no representations or warranties about the underlying loan, the borrowers, the documentation of the loans or any collateral securing the loans. In addition, a client may be bound by provisions of the underlying loan agreements, if any, that require the preservation of the confidentiality of information provided by the borrower. Because of certain factors including confidentiality provisions, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not purchased or sold as easily as are publicly traded securities.

Due to the unique and customized nature of a loan and the private syndication of a loan, certain syndicated loans may not be purchased or sold as easily as publicly traded securities. Trading in loans is subject to delays due to their unique and customized nature, and transfers may require extensive documentation, the payment of significant fees and the consent of an agent

bank or the underlying obligor. In addition, the investor may incur additional expenses to the extent it is required to seek recovery upon a default or to participate in the restructuring of a loan.

### *Seniority*

Some bank loans in which the client accounts invest may be second lien loans, junior loans or subordinated loans, which are typically subject to intercreditor arrangements, which may prohibit or restrict the ability of client accounts to exercise rights against the obligor with respect to their liens, if any, to challenge any exercise of remedies against the collateral by the first lien lenders with respect to their first liens, to challenge the enforceability or priority of the first liens on the collateral, and to exercise certain other secured creditor rights both before and during a default or bankruptcy of the obligor.

During a bankruptcy of the obligor, the holder of a junior loan may have to give advance consent to any use of cash collateral approved by the first lien creditors, sales of collateral approved by the first lien lenders and the bankruptcy court, and debtor-in-possession financings.

### *Prepayment & Reinvestment Risk*

Bank loans are generally pre-payable in whole or in part at any time at the option of the obligor thereof at par plus accrued unpaid interest thereon. Prepayments may be caused by a variety of factors which are often difficult to predict. Consequently, there exists a risk that bank loans purchased at a price greater than par may experience a capital loss as a result of such a prepayment. Additionally, proceeds from bank loans that are prepaid may be reinvested at a lower rate than the original investment.

### *Lender Liability*

In recent years, a number of judicial decisions in the U.S. have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories. Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the obligor or has assumed a degree of control over the obligor that creates a fiduciary duty owed to the obligor or its other creditors or shareholders. Because of the nature of bank loans, the client accounts could be subject to allegations of lender liability made against it as part of a group of lenders and may be liable for pro rata liabilities of the agent or lead lender.

### Risks of investing in covenant-lite loans

Certain client accounts may invest in covenant-lite loans, which have been growing in popularity, and which contain limited, if any, financial covenants. Generally, such loans either do not require the obligor to maintain debt service or other financial ratios or do not contain common restrictions on the ability of the obligor to change significantly its operations or to enter into other significant transactions that could affect its ability to repay such loans. As a result, the exposure to different risks may be increased, including with respect to liquidity, price volatility and ability to restructure loans than is the case with loans that have such requirements and restrictions.

### Risks of investing in high-yield (“HY”) bonds

Certain client accounts may invest in HY bonds, which are rated below investment grade and thus have greater credit and liquidity risk than investment grade obligations. Recent regulatory rulemaking has further impacted liquidity in the HY bond market. HY bonds typically pay a fixed rate of interest and are generally unsecured and may be subordinated to other obligations of the issuer. The lower ratings of HY obligations reflect a greater possibility that adverse changes in the financial condition of the issuer or in general economic conditions may impair the ability of the issuer to make payments of principal and interest.

Risks of HY bonds also include limited liability and secondary market support, substantial market price volatility resulting from changes in prevailing interest rates, subordination to the prior claims of banks and other senior lenders, the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates that could cause the investor to reinvest premature redemption proceeds in lower-yielding bonds, the possibility that earnings of the issuer may be insufficient to meet its debt service, and the declining creditworthiness and potential for insolvency of the issuer during periods of rising interest rates or economic downturn.

Additionally, because (i) the market for both investment grade and HY bonds is not liquid at all times and for all issuers, (ii) particular issuers of bonds may be concentrated in the hands of only a few investors, and (iii) many of such bonds are not registered under securities laws and most are not listed, an economic downturn or an increase in interest rates could effectively cause any market making activity to cease, severely disrupting the market for HY bonds and adversely affecting the value of outstanding HY bonds and the ability of the issuers thereof to repay principal and interest.

### Risks of investing in mezzanine debt

Certain client accounts may invest in mezzanine debt. Mezzanine debt is subordinated and may be unsecured and made in companies whose capital structures have significant indebtedness ranking ahead of the mezzanine debt, all or a significant portion of which may be secured. Subordinated debt instruments will rank behind the borrower’s senior indebtedness. In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to a borrower, clients holding mezzanine debt will participate with all other holders of such borrower’s indebtedness in the assets remaining after the borrower has paid all of its senior and/or secured (to the extent of the collateral securing such obligation) indebtedness. A borrower may not have sufficient funds to pay all of its creditors and the client may receive nothing, or less, ratably, than the holders of senior and/or secured indebtedness of such borrower or the holders of indebtedness that is not subordinated. Moreover, the ability of the Adviser to influence a borrower’s affairs, especially during periods of financial distress or following an insolvency, is likely to be substantially less than that of senior creditors.

### Risks of investing in stressed or distressed securities

Certain client accounts may invest in “stressed” or “distressed” securities, which are claims and obligations of entities that are experiencing significant financial or business difficulties. These investments may include loans, loan participations, trade claims held by trade or other creditors, stocks, partnership interests and similar financial instruments, executory contracts and options or participations therein not publicly traded. Although such purchases may result in significant returns, they involve a substantial degree of risk and may not show any return for a considerable

period of time. The level of analytical sophistication, both financial and legal, necessary for successful investing in companies or sovereign issuers experiencing significant business and financial distress is unusually high.

The market prices of such instruments are subject to abrupt and erratic market movements and above average price volatility, and the bid-ask spread of such instruments may be greater than normally expected. Such investments may be subject to price volatility due to various factors including changes in interest rates, market perception of the creditworthiness of the issuer and general market liquidity. Clients' investments may pay fixed, variable or floating rates of interest, may include interest-only, principal-only or residual obligations and may be subordinated (and thus exposed to the first level of default risk) or otherwise subject to substantial credit risks. In addition to the sensitivity of these instruments to overall interest-rate movements, there exists a fundamental credit risk based on the issuer's ability to make principal and interest payments on the debt it issues.

Valuing high-yield, stressed and distressed credit instruments can be an inherently uncertain process due to the uncertain financial condition of the issuers (and the lack of reliable information concerning such issuers' financial condition). These valuation difficulties may be materially exacerbated in certain markets. It may take a number of years for the market price of such securities to reflect their intrinsic value. Clients may lose a substantial portion or all of their investment in a distressed environment or may be required to accept cash or securities with a value less than the clients' investments.

Such investments may also be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. In trading stressed or distressed securities, litigation is sometimes required. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses.

#### Risks of investing in equity securities

Certain client accounts may take outright long or short positions in an issuer's equity. Such accounts may also acquire equity issued in a restructuring which the Adviser believes has substantial "upside" potential but which has not yet been reflected in the market due to the continuing market "taint" of the restructuring on the issuer involved. As the value of equities is based entirely on the enterprise value of the issuer — there is no obligation of the issuer to repay the amount invested — equity price levels can be highly sensitive to numerous economic factors as well as market sentiment and political factors.

#### Risks of investing in publicly traded securities

In certain circumstances, a client's investment portfolio may contain securities and obligations issued by publicly held companies. Such investments may subject the client to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the client to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members, including the Adviser's investment professionals, and increased

costs associated with each of the aforementioned risks. In the event that a client acquires fixed income securities and/or other instruments that are publicly traded, the Advisers may in some circumstances be unable to obtain financial covenants or other contractual rights, including management rights, that it might otherwise be able to obtain in making privately-negotiated debt investments. Moreover, the Advisers may not have the same access to information in connection with investments in public instruments, either when investigating a potential investment or after making an investment, as compared to a privately-negotiated debt investment.

#### Risks of investing in initial public offerings

Certain client accounts may invest in initial public offerings. Investments in initial public offerings (or shortly thereafter) may involve higher risks than investments issued in secondary public offerings or purchases on a secondary market due to a variety of factors, including, without limitation, the limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer and limited operating history of the issuer. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them. These factors may contribute to substantial price volatility for such securities.

#### Risks of investing in short sales

Certain client accounts may sell securities short during the course of implementing their trading or hedging strategies. Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on the client account's portfolio. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short. Because the borrowed securities sold short must later be replaced by securities purchased in the market, any appreciation in the market price of these securities results in a loss. Purchasing securities to close out a short position can itself cause the market price of the securities to rise further, increasing losses. Furthermore, the client may be prematurely forced to close out a short position if a counterparty from which the client borrowed securities demands their return or increases the borrowing costs. Additionally, there can be no assurance that securities necessary to cover a short position will be available for purchase.

The U.S. government and certain non-U.S. jurisdictions have at times taken measures to impose restrictions on the ability of investors to enter into short sales, including a complete prohibition on taking short positions in respect of certain issuers. Such restrictions may negatively affect the ability of the Advisers to implement their strategies. It cannot be determined how future regulations may limit the clients' ability to engage in short selling and how such limitations may impact their performance.

#### Risks of investing in derivatives

Certain client accounts are permitted to hold interests in various derivative instruments indirectly or directly, including options, swaps, forward contracts and other derivatives to hedge overall portfolio risk or individual position risk and for speculative purposes. While the Advisers are generally permitted to engage in hedging, they are generally not required to do so and there is no guarantee

that any such hedging strategies will be successful. The use of derivatives will expose clients to various risks, including but not limited to:

*Counterparty Risk.*

There is risk that the counterparty in a derivative transaction will be unable to honor its financial obligation to the client. Certain participants in the derivatives market, including larger financial institutions, have experienced significant financial hardship and deteriorating credit conditions. If a client's counterparty to a derivative transaction experiences a loss of capital, or is perceived to lack adequate capital or access to capital, it may experience margin calls or other regulatory requirements to increase equity. Under such circumstances, the risk that a counterparty will be unable to honor its obligations may increase substantially. Counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Adviser has concentrated its client's transactions with a single or small group of counterparties.

*Leverage Risk.*

The risk associated with certain types of derivative strategies is that relatively small market movements may result in large changes in the value of an investment. Certain investments or trading strategies that involve leverage can result in losses that greatly exceed the amount originally invested.

*Liquidity Risk.*

There is risk that certain instruments may be difficult or impossible to sell at the time that the seller would like or at the price that the seller believes the security is currently worth. This risk is heightened to the extent the Adviser engages in OTC derivative transactions on a client's behalf. The illiquidity of OTC derivative transactions may be due to various factors, including congestion, disorderly markets, limitations on deliverable supplies, the participation of speculators, government regulation and intervention, and technical and operational or system failures. Such illiquidity may also make it more difficult for the Adviser to ascertain the market value of derivatives.

*Correlation Risk.*

There is risk that changes in the value of a derivative will not match the changes in the value of the portfolio holdings that are being hedged or of the particular market, security or loan to which the Adviser seeks exposure.

*Index Risk.*

If the derivative is linked to the performance of an index, it will be subject to the risks associated with changes in that index. If the index changes, the client could receive lower payments or experience a reduction in the value of the derivative to below what the client paid. Certain indexed securities, including inverse securities (which move in an opposite direction to the index), may create leverage, to the extent that they increase or decrease in value at a rate that is a multiple of the changes in the applicable index.

### *Regulatory Risk.*

Various legislative and regulatory initiatives may impact the availability, liquidity and cost of certain derivatives, including potentially limiting or restricting the ability of Advisers to use certain derivatives or certain counterparties, increasing the costs of using these instruments or making these instruments less effective.

### *Management Risk.*

Furthermore, the Advisers' ability to successfully use derivatives depends on the Advisers' ability to successfully structure and implement hedging strategies. Additionally, segregated liquid assets, amounts paid by a client as premiums, and cash or other assets held in margin accounts with respect to derivatives are not otherwise available to the client for investment purposes.

### Risks of investing in debtor-in-possession ("DIP") loans

Certain client accounts may invest in or extend loans to companies that have filed for protection or moratorium under available bankruptcy rules. These debtor-in-possession or DIP loans are most often revolving working-capital facilities put into place at the outset of the relevant proceedings to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans may be generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a court or other competent public authority, it is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.

### Risks of investing in portfolios of investments

Certain client accounts may purchase entire portfolios or substantial portions of portfolios from market participants in need of liquidity. Such accounts may be required to bid on such portfolios in a very short time frame and may not be able to perform normal due diligence on the portfolio. Such a portfolio may contain instruments or complex arrangements of multiple instruments that are difficult to understand or evaluate. In addition, the client may be obligated to acquire investments in such portfolios that it would not otherwise have determined to acquire if it were acquiring such investments individually. Such a portfolio may suffer further deterioration after purchase by the client before it is possible to ameliorate risks associated with the portfolio. As a consequence, there is substantial risk that the Advisers will not be able to adequately evaluate particular risks or that market movements or other adverse developments will cause the client to incur substantial losses on such transactions.

### Risks of investing in bridge financings

Certain client accounts may invest in bridge financings in connection with investments on a short-term, secured or unsecured, basis or otherwise invest on an interim basis in investments. Such bridge loans or interim investments may be convertible into a more permanent, long-term financing; however, for reasons not always in the Advisers' control, more permanent financing or securities may not occur and such bridge loans or interim investments may remain outstanding. In such event, the interest rate or the terms of such interim investments may not adequately reflect the risks associated with the position taken by clients.

### Risks of investing in convertible securities

Certain client accounts may invest in convertible securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. Convertible fixed income securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. As with all fixed income securities, the market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus may not decline in price to the same extent as the underlying common stock. Convertible securities rank senior to common stocks in an issuer's capital structure and consequently entail less risk than the issuer's common stock. Clients may invest in convertible securities of any maturity and will determine whether to hold, sell or convert any security in which they have invested, depending upon the Advisers' outlook for the market value for such security, the security into which it converts and/or other factors.

### Risks of investing in warrants

Certain client accounts may invest in warrants or rights. Warrants and rights generally give the holder the right to receive, upon exercise, a security of the issuer at a stated price. Risks associated with the use of warrants and rights are generally similar to risks associated with the use of options. Unlike most options, however, warrants and rights are issued in specific amounts, and warrants generally have longer terms than options. Warrants and rights are not likely to be as liquid as exchange-traded options backed by a recognized clearing agency. In addition, the terms of warrants or rights may limit the Advisers' ability to exercise the warrants or rights at such time, or in such quantities, as the Advisers would otherwise wish.

### Risks of investing in structured finance obligations ("SFOs")

Certain client accounts may invest from time to time in SFOs. SFOs may entail various unique risks, such as prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on an SFO changes based on multiples of changes in interest rates or inversely to changes in interest rates). In addition, the performance of an SFO will be affected by a variety of factors, including its priority in the capital structure of the obligor, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.

### Risks of investing in synthetic obligations ("SOs")

Certain client accounts may hold a limited number of SOs. Investments in SOs (the reference obligations of which may themselves be loan collateral debt obligations, SFOs or high-yield collateral debt obligations) present risks in addition to those resulting from direct purchases of the reference obligations ("ROs") underlying such SOs. With respect to each SO, the issuer will



usually have a contractual relationship only with the counterparty of the SO (i.e. the client) and not the obligor of the applicable RO.

The issuer of the applicable SO generally will have no direct right to enforce compliance by the obligor of the applicable RO with the terms of the RO, no rights of set-off against the obligor (and may be subject to set-off rights exercised by the obligor against the counterparty or another person or entity), nor have any voting or other consensual rights of ownership with respect to the RO.

The client will not directly benefit from any collateral supporting the RO and will not have the benefit of the remedies that would normally be available to a holder of such RO. In an insolvency of the SO issuer, the client will be treated as a general creditor of the SO issuer, and will not have any claim with respect to the relevant RO. Consequently, the client will be subject to the credit risk of the SO issuer as well as that of the relevant RO obligor.

#### Risks of investing in CLO equity and mezzanine debt tranches and warehouse investments

Certain client accounts may invest in CLO equity and subordinated debt tranches, as well as warehouse investment securities. CLO and warehouse investments are, generally, limited recourse obligations of the issuer thereof payable solely from distributions on, and sale proceeds of, the underlying assets owned by the issuer. If the distributions on and sale proceeds of the underlying assets are insufficient to make required payments on the securities, no other assets will be available for the payment of such deficiency to the client and following the distribution of such distributions and proceeds to the holders of the securities, the obligation of the issuer to pay such deficiency will be extinguished.

The underlying assets are subject to credit, liquidity, market and interest rate risks. Changes in the market value or fair value of underlying assets could result in defaults that may in turn reduce or halt the distribution of cash to the client or trigger a liquidation of an investment. In certain circumstances, interest and principal proceeds otherwise payable to the equity or residual tranche of a CLO or warehouse (the “**Equity Tranche**”), as well as, potentially, the most junior debt tranche of a CLO investment (the “**Mezzanine Tranche**”), could be diverted and the Equity Tranche and, potentially, the Mezzanine Tranche, may suffer a loss of all or a portion of its value. Client accounts that invest in the Equity Tranches and Mezzanine Tranches of CLOs and in the Equity Tranches of warehouses may lose their entire investment in such investments.

The underlying assets of such securities are primarily SSCLs and, in certain cases, other debt instruments, which are expected to be below investment grade (or of equivalent credit rating), or may not be rated at all. The lower rating of below investment grade loans or bonds reflects a greater possibility that adverse changes in the financial condition of an obligor or in general economic conditions or both may impair the ability of the obligor to make payments of principal or interest. As the holder of Equity Tranches and Mezzanine Tranches in CLOs and of Equity Tranches in warehouses, certain of Clients will face a greater risk of loss upon default of an underlying asset.

#### *Leverage*

CLOs by their very nature are highly leveraged vehicles. The leverage varies depending on the seniority of the tranche. Equity Tranches typically have leverage in excess of ten times, although

warehouses are typically less leveraged than CLOs. As a result, any event that negatively impacts an underlying investment could result in a substantial loss that would not be as substantial if the investment were not leveraged. Accordingly, any event that adversely affects the value of an underlying investment of these structures will be magnified by the leverage that is utilized.

### *Complexity*

In addition, CLOs and related investments are highly complex investments. Their complexity gives rise to the risk that investors, parties involved in their creation and issuance, and other parties with an interest in them may not have the same understanding of how these investments behave, or the rights that the various interested parties have with respect to them. Furthermore, the documents governing these investments may contain some ambiguities that are subject to differing interpretations. Even in the absence of such ambiguities, if a dispute were to arise concerning these instruments, there is a risk that a court or other tribunal might not fully understand all aspects of these investments and might rule in a manner contrary to both the terms and the intent of the documents. Therefore, clients cannot be fully assured that they will be able to enjoy all of the rights that they expect to have when they invest in CLOs and related investments.

### *Default Remedies*

If an event of default occurs under the indenture, loan agreement or other document governing an investment, the holders of a majority of the most senior class of outstanding notes or loans issued by such investment generally will be entitled to determine the remedies to be exercised under the indenture, loan agreement or other governing document. These remedies, which may include the sale and liquidation of the assets underlying the investment, could be adverse to the interests of those clients that hold Equity Tranches or CLO Mezzanine Tranches. Such clients typically will have no rights under the indenture, loan agreement or other document governing an investment and will not be able to exercise any remedies following an event of default as long as any more senior notes or loans are outstanding, nor will such clients receive any payments after an event of default until the more senior notes or loans and certain other amounts have been paid in full.

### *Redemptions*

An optional redemption of the secured notes issued by a CLO, or prepayment of the secured notes or loans associated with a warehouse investment, could require the collateral manager to liquidate the assets underlying the investment prior to the expected maturity of the secured notes or loans, which could adversely affect the realized value of the collateral sold and could result in an elimination or reduction in the amount distributable with respect to the investment, which could adversely impact returns to the client. In any such event, the collateral manager may be required to aggregate collateral to be sold together in one block transaction, which could possibly result in a lower realized value for such collateral and reduce distributions to the client as holder of such investment.

Additionally, if any coverage tests are not met for any of the secured notes issued by a CLO, then proceeds that would otherwise be available for reinvestment or for payment to the holders of the Equity Tranches of the CLO and CLO Mezzanine Tranches of such CLO will instead be used to redeem or prepay one or more classes of such secured notes to the extent necessary to restore the applicable coverage test to the minimum required level or cause such secured notes to be redeemed

in full. The full or partial redemption or prepayment of such secured notes would result in an elimination, deferral or reduction in the amount distributable to the holders of the Equity Tranches of the CLO and CLO Mezzanine Tranches of such CLO, which would adversely impact the returns to the client. Similar mandatory prepayments could occur on warehouses, as well, resulting in similar adverse impacts on the returns to the client.

### *Portfolio Ramp-Up*

For a certain period of time after the closing of a CLO or warehouse, the collateral manager will continue to purchase assets for the vehicle. There is no assurance that the collateral manager will be able to acquire assets that satisfy the “eligibility criteria” specified for such CLOS or warehouse, and any inability of the issuer to acquire assets that satisfy such criteria may adversely affect the timing and amount of distributions on the Equity Tranches and CLO Mezzanine Tranches. In addition, as a result of acquiring assets, the timing of cash flows may differ from the model portfolio provided to the Advisers, decreasing or increasing expected returns on the Equity Tranches and CLO Mezzanine Tranches.

### *Reinvestments*

As part of the ordinary management of its portfolio, a CLO or warehouse will typically generate cash from asset repayments and sales and reinvest those proceeds in substitute assets, subject to compliance with its investment guidelines and certain other conditions. The earnings with respect to such substitute assets will depend on the quality of reinvestment opportunities available at the time. The need to satisfy the investment guidelines of such CLO or warehouse and identify acceptable assets may require the collateral manager to purchase substitute assets at a lower yield than those initially acquired or require that the sale proceeds be maintained temporarily in cash, either of which may reduce the yield that the collateral manager is able to achieve. The investment guidelines may incentivize a collateral manager to buy riskier assets than it otherwise would, which could result in additional losses. Either of the foregoing could reduce the return to the client and have a negative effect on the fair value of the client’s assets.

### *Warehouses*

A warehouse investment generally bears the risk that (i) the warehoused assets (primarily SSCLs) will drop in value during the warehousing period, (ii) certain of the warehoused assets default or for another reason are not permitted to be included in a CLO and a loss is incurred upon their disposition, and (iii) the anticipated CLO is delayed past the maturity date of the related warehouse facility or does not close at all, and, in either case, losses are incurred upon disposition of all of the warehoused assets. In the case of (iii), a particular CLO may not close for many reasons, including as a result of a market-wide material adverse change, a manager-related material adverse change or the discretion of the manager (which may be an affiliate of the Adviser) or the underwriter.

### *Minority Positions*

Certain client accounts may invest in a non-controlling interest in any CLO Issuer or warehouse investment and, therefore, would have limited voting power with respect to such interest and the underlying assets and a limited ability to influence the management of any such investment. For example, one or more other holders may control the vote of the CLO Equity Tranche in the underlying CLO, which typically includes the ability to cause the underlying CLO to optionally

redeem (following the expiry of applicable non-call periods) its CLO securities, including its CLO Equity Tranche and CLO Mezzanine Tranches, to refinance certain tranches of its CLO securities and to make other material decisions that may affect the value of the CLO Equity Tranches and CLO Mezzanine Tranches, which could adversely impact returns to the client.

#### Risk of loss

All investing involves a risk of loss and may not be suitable for all investors.

#### Currency risks

Some investments are not denominated in U.S. Dollars and are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in the relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments in the jurisdictions issuing different currencies.

#### Third-party litigation

The Advisers' investment activities may subject client accounts to the risks of becoming involved in litigation and enforcement actions or investigations by third parties. This risk may be greater where the client exercises control or significant influence over a portfolio company's direction. The expense of defending claims by third parties and paying any amounts pursuant to settlements or judgments would be borne by the client. In the event that client account's funds are not sufficient to pay the expenses incurred by the client, the ability of the Adviser to manage the client account effectively may be impaired, and the Adviser may not, on behalf of the client, be able to defend or prosecute legal proceedings that may be brought against it or that the client might otherwise bring to protect its interests.

#### Cyber-security and systems risk

The failure in cyber-security systems, as well as the occurrence of events unanticipated in the Advisers' disaster recovery systems and management continuity planning, could impair the Advisers' ability to conduct business effectively. The occurrence of a disaster such as a cyber-attack, a natural catastrophe, a communication or electrical outage, an industrial accident, a terrorist attack or war, events unanticipated in the Advisers' disaster recovery systems, or a support failure from external providers, could have an adverse effect on the Advisers' ability to conduct business and the performance of clients, particularly if those events affect the Advisers' computer-based data processing, transmission, storage, or retrieval systems or destroy data. If a significant number of the Advisers' investment professionals were unavailable in the event of a disaster, the ability to effectively conduct the business of the Advisers or make or manage investments could be severely compromised.

In addition, the Advisers may experience threats to their data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, the Advisers' computer systems and

networks, or otherwise cause interruptions or malfunctions in the Advisers' operations, which could result in damage to clients.

#### U.S. and global financial markets

The market for investments in credit investment opportunities and other investments generally, and the success of the clients' investment activities in particular, will be affected by general economic and market conditions, as well as by changes in applicable laws, trade barriers, currency exchange controls, the rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and national and international political and socioeconomic circumstances in respect of the countries in which clients may invest. These factors may affect the level and volatility of market prices and the liquidity of a client account's investments, which could impair an account's profitability or result in losses. In addition, general fluctuations in market prices and interest rates may affect the Advisers' investment opportunities and the value of the clients' investments.

The Advisers' financial condition may be adversely affected by a significant general economic downturn, and it may be subject to legal, regulatory, reputational and other unforeseen risks that could have a material adverse effect on the Advisers' businesses and operations and thereby could impact clients. Moreover, continued periods of lackluster economic growth in the U.S. and global economies (or any particular segments thereof) could have a pronounced impact on clients and could adversely affect the clients' profitability and impair the Advisers' ability to effectively deploy the clients' capital or realize their investments on favorable terms. These concerns are highlighted by recent events in the global economy.

There can be no assurances that conditions in the global financial markets will not worsen and/or adversely affect the clients' investments or their overall performance. The Advisers' investment strategy and the availability of opportunities rely in part on the continuation of certain trends and conditions observed in the market for investments and the larger financial markets and in some cases the improvement of such conditions. There can be no assurance of such improvement or the continuation of such perceived trends. Moreover, trends and historical events do not imply, forecast or predict future events and, in any event, past performance is not necessarily indicative of future results. There can be no assurance that the assumptions made or the beliefs and expectations currently held by the Advisers will prove correct and actual events and circumstances may vary significantly.

#### Changes in the legislative and regulatory environment.

The Advisers' ability to achieve their investment objectives, as well as the ability of the Advisers to conduct their operations, are based on laws and regulations that are subject to change through legislative, judicial or administrative action. Future legislative, judicial or administrative action could adversely affect the Advisers' ability to implement their investment program. Increased regulation could have a material adverse impact on the profit potential of clients.

#### *Increased Regulatory Oversight*

The financial services industry generally, and the activities of alternative investment vehicles and their advisers, in particular, have been subject to increasing regulation and oversight. This may increase the Advisers' exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight can also impose administrative burdens on the Advisers,

including, without limitation, responding to investigations and implementing new policies and procedures. For example, such burdens may divert the Advisers' time, attention and resources from portfolio management activities.

It is anticipated that, in the normal course of business, the Advisers' officers will have contact with governmental authorities and/or be subjected to responding to questionnaires or examinations.

#### Force Majeure

Social, political, economic and other conditions and events (such as natural disasters, epidemics and pandemics, terrorism, conflicts and social unrest) will occur that have significant impacts on issuers, industries, governments and other systems, including the financial markets. As global systems, economies and financial markets are increasingly interconnected, events that once had only local impact are now more likely to have regional or even global effects. Events that occur in one country, region or financial market will, more frequently, adversely impact issuers in other countries, regions or markets. These impacts can be exacerbated by failures of governments and societies to adequately respond to an emerging event or threat. Clients will be negatively impacted if the value of their portfolio holdings decreases as a result of such events, if these events adversely impact the operations and effectiveness of the Advisers or key service providers, or if these events disrupt systems and processes necessary or beneficial to the management of accounts.

### **Item 9. Disciplinary Information**

Item 9 requires the disclosure of any legal or disciplinary event that is material to a client's or prospective client's evaluation of CIFIC's advisory business or the integrity of its management. While CIFIC does not view the following disciplinary event as material to it, please note that in February 2011, Deerfield Capital Corp. (prior to a merger involving Deerfield Capital Corp. and Commercial Industrial Finance Corp. in April 2011, pursuant to which CIFIC and CIM became affiliates), without admitting or denying the allegations or findings, consented to the SEC's issuance of a final order making findings and imposing a cease and desist order from violating specified books and records and internal control provisions of the Securities Exchange Act of 1934 and rules thereunder (namely, Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) and Rules 12b-20, 13a-1, and 13a-13), disgorgement and related payment of prejudgment interest. The SEC's disciplinary action related to Deerfield Capital Corp.'s accounting treatment for three sets of mortgage-securities transactions that it conducted approximately ten years ago. None of the CIFIC, CIM or the other Advisers or their current management persons were alleged by the SEC to have engaged in any violation.

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

None of the Advisers is registered as a securities broker-dealer.

#### Conflicts of Interest

As noted above, the Advisers are affiliated with each other and with CIFIC LLC. The Advisers' affiliations with each other might create conflicts of interest for clients.

### *Broad and Wide-Ranging Activities*

As a diversified financial services firm, the Advisers engage in a broad spectrum of activities including investment management, sponsoring and managing private investment funds and other activities. In the ordinary course of business, the Advisers engage in activities where clients' interests will conflict, and the Advisers interests will conflict with those of clients. Please see Item 11 (Participation or interest in client transactions) for additional information about transactions between client accounts and transactions between the Advisers and client accounts.

### *Diverse Client Group*

The Advisers may have clients located in a wide variety of jurisdictions and those clients may take a wide variety of forms. This may result in the Advisers having conflicting investment, tax and other interests with respect to the investments they make on behalf of certain clients. Therefore, the Advisers may face conflicts in deciding which investments should be allocated to certain clients and how those investments should be structured.

### *Allocations among Advisory Clients*

The Advisers currently advise, and expect in the future to continue to advise clients with similar, identical or overlapping investment objectives and policies including other funds or accounts that may invest on a side-by-side basis in whole or in part with other client accounts that are advised by the Advisers or their affiliates. Such overlapping strategies create conflicts of interest for the Advisers in allocating the purchase and sale of investment opportunities. A client's exposure to certain investments or any particular investment may in certain cases be lower than it would have been absent participation by one or more other clients, and in certain cases, a client may exit an investment earlier or later as a result of decisions to hold or sell made in respect of one or more other client accounts.

In addition, investment opportunities may be appropriate for clients, or the Adviser and its employees or principals, at the same, different, or overlapping levels of an issuer's capital structure. Conflicts may arise in determining the terms of investments, particularly where these clients may invest in different types of instruments of a single issuer, particularly in determining whether and how to exercise rights with respect to such interests. In such circumstances, the Adviser may determine to take certain actions to mitigate such conflicts, including by permitting clients to vote on the resolution of such conflicts.

### *Material Nonpublic Information*

As a result of existing investments or activities of the client accounts, the Advisers and their employees or managers may from time to time acquire material nonpublic information that they will not be able to use for the benefit of client accounts and that may restrict the Advisers from trading in certain investments for the client accounts. To avoid some of these restrictions with respect to one client account, the Advisers may elect not to receive such material nonpublic information. As a result, another client account, at times, may receive less information about a particular investment than it may have otherwise received, including less information than that received by other investors, and therefore may be disadvantaged compared to other investors in determining to purchase or sell such investment.

### *Valuation*

Certain of the client investments are difficult to value and market prices may not always be available for such investments. Where possible and/or commercially practicable (including with respect to cost), the Advisers expect to engage an independent administrator (or other third-party valuation agent) to determine the value of such investments, subject to the supervision of the Advisers. If valuations do not reflect fair value, the Advisers may instruct that the Administrator or third-party agent to value the securities or other assets or liabilities in accordance with the Adviser's valuation policy and procedures. To the extent that the Advisers are compensated based on such valuations, the Advisers may have an incentive to challenge low valuations and favor or refrain from challenging higher valuations in order to increase their compensation. Please see Item 5 for additional information about conflicts related to fees and compensation.

### *Service Providers and Brokers*

The Advisers have relationships with various banks and other financial institutions, largely as a result of the Advisers transacting with these institutions in the purchase and sale of investments for client accounts and in connection with placing securities in client accounts managed by the Advisers (such as CLOs). Advisers may have an incentive to engage in these transactions with particular institutions if they have referred prospective clients to the Advisers. These service providers are also permitted to be investors in the clients and, if that occurs, the Advisers may face a conflict in deciding whether to select such a service provider for the purchase and sale of a client's investments. Advisers may have an incentive to engage in these transactions with institutions who have referred prospective investors to the Advisers.

### *Conflicts with respect to CIFIC-managed CLOs, warehouses, and other investments*

There are potential conflicts of interest resulting from the fact that certain client accounts make investments in CIFIC-managed CLOs and other CIFIC-managed investments. Managing CLOs represents CIFIC's principal line of business, which provides an incentive for the Advisers (for example, in light of the incentive fees which CLO managers receive once the CLO equity has passed the required internal rate of return threshold and the management fees which CLO managers receive for managing CLOs) to make decisions that favor the closing of CLOs (as well as investing in CLO warehouses that are a precursor to closing of CLOs) over the interests of the client because it may result in increased fees for CIFIC as a whole. Additional allocation incentives may arise with respect to investing in CIFIC-managed CLOs and other CIFIC-managed investments, such as warehouses, versus those managed by third parties, as an Adviser may be incentivized to invest on its client's behalf in CIFIC-managed investments to increase the likelihood and/or speed with which CIFIC is able to close CIFIC-managed CLOs, to increase the perceived liquidity of those investments on the secondary market, to improve relationships between CIFIC and certain service providers to the CIFIC-managed investments, or to improve the ability to influence the management of the applicable investment.

### *Co-Investments*

If an Adviser, in its sole discretion, determines that the amount of an investment opportunity exceeds the amount that it determines would be appropriate for a particular client account, the Adviser may offer any such excess to one or more co-investors on such terms and conditions as the Adviser determines. In general, (i) no investor in a client account should expect to have a right to



participate in any co-investment opportunity, even if such investor has expressed an interest in co-investment opportunities, (ii) decisions regarding whether and to whom to offer co-investment opportunities, as well as the applicable terms on which a co-investment is made, are made in the sole discretion of the Adviser considering such factors as the Adviser may consider relevant, which may include such persons strategic relationships, existing or future investments with or in client accounts managed by the Adviser or other relationships with the Adviser, and (iii) co-investment opportunities may be offered to some and not other investors in particular clients, in the sole discretion of the Adviser, and certain investors may be offered a smaller amount of co-investment opportunities than originally requested. Additionally, the Adviser is permitted to enter into certain agreements to provide co-investment rights, including preferential rights, to receive offers of co-investment opportunities, to certain third parties and any non-binding acknowledgement of interest in co-investment opportunities by an investor in a client account does not require the Adviser to notify the recipient of such acknowledgments if there is a co-investment opportunity.

In exercising its discretion to allocate co-investment opportunities with respect to a particular investment among client accounts, investors in those client accounts or other potential co-investors, the Adviser considers some or all of a wide range of factors, which include, but are not limited to, one or more of the following: (i) the Adviser's evaluation of the size and financial resources of a potential co-investment party and the Adviser's perception of the ability of such co-investment party to efficiently and expeditiously participate in the investment opportunity, (ii) any confidentiality concerns relating to the Adviser providing a potential co-investment party with information to evaluate the investment opportunity, (iii) the Adviser's perception of past experiences and relationships with a potential co-investment party, (iv) the tax character and nature of the co-investment opportunity, (v) the ability of a potential co-investment party to aid in operating or monitoring the co-investment opportunity, (vi) any interests a potential co-investment party has with competitors of the co-investment opportunity, (vii) the Adviser's perception of whether a potential co-investment would subject the co-investment party to certain legal, regulatory or competitive burdens, and (viii) how allocating an investment opportunity to a potential co-investment party will help establish, strengthen, or cultivate a relationship with that potential co-investment party that may provide long-term benefits to the Adviser or its clients.

Co-investments may be committed and/or consummated by a client before or after the time that a co-investor makes its commitment or acquires the investment. In the event of a post-closing sell down, the client will bear the risk that any or all of the excess portion of such investment may not be sold or may only be sold on unattractive terms. The client account may, in certain circumstances, bear the entire amount of any break-up fee, dead deal expenses, or other fees, costs and expenses related to a co-investment, including financing expenses related to holding such co-investment, hold a larger portion than expected in such investment, or may realize lower-than-expected returns from such investment. The client account will also bear the risk that any co-investors acquiring an interest in an investment after the closing of such investment may acquire such interest on terms that may not reflect the then-current value of such investment. In the case of a post-closing sell down, the Adviser may decide to charge a co-investor interest for the investment at cost of acquiring such investment and may decline to charge a co-investor interest for the time from the closing of the client account's investment to the date of transfer or other carrying expenses. A client account may incur fees and other expenses in connection with borrowing the portion of the acquisition price of an investment ultimately allocated to the co-investor(s), and those amounts may not be required to be reimbursed by the co-investor(s). In certain circumstances, the Adviser may receive compensation from a third party for a co-investment opportunity, including fees or carried interest

(which compensation may be greater than the compensation paid by the relevant client account) or other benefits and such fees and carried interest will not be rebated to the relevant client account or offset or reduce management fees from the relevant client account.

In certain cases, a co-investment vehicle, or other similar vehicle may be established to facilitate the investment alongside a client account. In the event such a co-investment vehicle is created, the investors in such co-investment vehicle will typically bear all expenses related to its organization and formation once the co-investment opportunity is actually made by such persons and other expenses incurred solely for the benefit of the co-investment vehicle. As a general matter, no co-investor will bear dead deal costs, break-up fees or organizational expenses of a co-investment vehicle until they are contractually committed to invest in the prospective investment and, furthermore, unless any co-investors otherwise agree, the client account (and any other applicable clients) will bear the entire amount of any such expenses or other fees, costs and expenses related to a co-investment that is not consummated by such co-investors. Similarly, co-investment vehicles and other co-investors are not typically allocated any share of break-up fees received in connection with an unconsummated transaction until they are contractually committed to invest in the prospective investment. The Adviser or its affiliates or employees are permitted to participate in such co-investment vehicles.

#### *Conflicts of staff*

Although the professional staff of the Advisers will devote as much time to the accounts as the Advisers deem appropriate to perform their duties in accordance with the investment advisory agreements and reasonable commercial standards, the staff will have conflicts in allocating their time and services among the accounts and there is no guarantee or obligation to devote a specific amount of time to the accounts by the Advisers or any particular employee of the foregoing. Staff may have an incentive to allocate time to clients with respect to which they personally receive a portion of the carried interest.

#### *Third-Party Ownership Interest*

A majority interest in CIFIC LLC is indirectly owned by a third-party interest holder, Supreme Universal Holdings Ltd. (see Item 4), which does not have authority over the day-to day operations or investment decisions of the Advisers as they relate to clients, although it has negotiated certain protective rights, consent rights and other rights in connection with its indirect investment in CIFIC LLC. Although the Advisers intend to maintain operations, strategy and investment decisions separate from this third-party investor, they generally will have incentives to conduct operations in a manner that benefits Supreme Universal Holdings Ltd.

#### Possible future activities

The Advisers may expand the range of services that they provide over time. The Advisers will not be restricted in the scope of their business or in the performance of any such services (whether now offered or undertaken in the future) even if such activities could give rise to conflicts of interest, and whether or not such conflicts are described herein. The Advisers have, and will continue to develop, relationships with a significant number of companies, financial sponsors and their senior managers, including relationships with clients who may hold or may have held investments similar to those intended to be made by an account. These clients may themselves represent appropriate investment opportunities for an account or may compete with an account for

investment opportunities. In determining whether to engage in a particular transaction, the Advisers are permitted to consider and there is no guarantee that they would not be influenced by those relationships.

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

### Code of Ethics

The Advisers have a joint Code of Ethics (the “**Code**”) that is a guide to the legal and ethical behavior of their officers and employees. You may obtain a copy of the Code from the CCO.

The Code addresses the general responsibilities of the officers and employees; standards of business conduct, avoidance of conflicts of interest, reporting of personal securities transactions, the reporting of violations of the Code, any other policy of the Advisers or applicable law, political contributions; protection of confidential information; maintenance of data security, equal opportunity for Adviser employees, prohibitions on workplace harassment, proper use of Adviser property, recording of conversations; and recordkeeping.

### Participation or interest in client transactions

The Advisers or their “**Related Persons**” (i.e., entities under common control with the Advisers) may recommend that clients buy securities in which the Advisers have a material financial interest, in that they may recommend that clients invest in an investment fund that they manage, or that they may be an investor in, and in which they thus have a financial interest. The Advisers would recommend the investment only if they considered it in the applicable client’s best interest to make the investment.

The Advisers or their Related Persons may invest in the same or related investments that they recommend to clients, for example, as noted above, they may be investors in investment funds that they recommend to clients and/or may own similar investments directly. The Advisers do not consider this to involve a conflict of interest, as they believe that the investment by them or their Related Persons in a client account that they recommend to clients helps to align the Advisers’ interests with those of their clients.

The Advisers or their Related Persons may recommend investments to clients at or about the same time that they buy or sell the same securities for their own account, for example, as noted above, they may recommend that clients invest in an investment fund or in investments that the Advisers manage at or about the same time that they invest in the fund and/or investment directly. The price at which the Advisers invest in an investment fund managed by them may be greater or less than the price at which the applicable client account invests in such investment fund. The Advisers do not consider this to involve a conflict of interest.

The Advisers or their Related Persons from time to time cause an account in which the Advisers or such persons have a material ownership or other financial interest to engage in principal trades with a client account in accordance with the Advisers’ policies and the Advisers Act. The Advisers would effectuate such trades only if they considered them to be in the best interests of the client account, principally because they considered the trade desirable for the client account and the trade price to be no worse than they could have obtained for the client

account in an open market transaction. The Advisers will generally disclose in the disclosure document for the client account that they may engage in such principal trades with the account.

The Advisers from time to time, if authorized to do so pursuant to a particular client advisory agreement or by a particular client, execute cross transactions and agency cross transactions (collectively, “**Cross Transactions**”) in accordance with the Advisers’ policies and the Advisers Act. Cross Transactions include transactions between two separate client accounts managed by an Adviser. The Advisers believe that such Cross Transactions may enable it to purchase or sell an SSCL or other investment or a block of investments for each client account and possibly avoid or minimize transaction costs or unfavorable price movements. The Advisers believe that Cross Transactions may provide meaningful benefits for their clients, and have implemented policies and procedures to ensure that such transactions are executed at a value that is no less than that which the Advisers believe may be negotiated on an arm’s length basis with a third party.

The Advisers have various policies and procedures setting forth the terms under which they may engage in principal trades and Cross Transactions, including that they be approved in advance by the CCO. Such principal trades and Cross Transactions could create a conflict of interest for the Advisers, in that they might have an incentive to favor an account from which they receive higher fees or in which they or their Related Persons have a financial interest over the client account that they arrange to buy securities from or sell securities to.

#### Personal trading by employees

The Advisers generally address conflicts that may arise in the personal trading of securities by their employees through the Code and their review of the personal trading of their employees who have access to pre-trade information about orders the Advisers place for client accounts. The Code contains general prohibitions on (and the Advisers review their employees’ reports of personal trading for) personal trading that would conflict with their clients’ interests, “front running” of clients’ transactions (purchasing securities in advance of causing client accounts to purchase the same securities), and that would involve the use of material non-public information.

In addition, certain “knowledgeable employees” directly and indirectly may have a beneficial ownership interest in CIFIC’s funds.

#### **Item 12. Brokerage Practices**

The Advisers buy or sell loans through numerous agent banks for new issue loans and through numerous banks and other trading counterparties for secondary market loan trading. The Advisers have full discretion to determine their trading counterparties, but they typically trade with the trading counterparty offering the most favorable price (which in the case of SSCLs, is often the “agent” bank of the related SSCL). The Advisers’ trading counterparties generally do not charge commissions, instead earning a return on the bid/ask spread of the securities that they trade. When considering the reasonableness of a bid/ask spread, the Advisers consider, among other things, an investment’s yield, its availability through other agent banks and counterparties, and prevailing market conditions, among other things.

Additionally, the Advisers typically have authority to determine the broker or dealer to be used

for the accounts they manage (to the extent relevant for a particular account), and the commission rate to be paid to brokers. The only limitations on their authority in this regard are those specifically agreed to with a particular client.

The factors the Advisers consider in determining the broker or dealer to be used and the reasonableness of the commission rate paid are mainly the quality of execution, the financial condition of the broker or dealer, and the overall quality of the broker or dealer's services, which may include services other than execution of a specific trade, such as general market or company research the broker or dealer provides to the Advisers or specific trading ideas. The research generated by a client's trading may be used for the benefit of other clients, and not all clients will benefit from all research obtained, but the Advisers do not have any "soft dollar" arrangements.

The Advisers may trade for the benefit of the client accounts they manage through prime broker arrangements that allow trading with multiple brokers while centralizing clearance and custody through prime brokers. Through these arrangements, the Advisers execute trades through accounts with different executing brokers in the name of the prime broker for the benefit of the client account.

Certain brokers and dealers may introduce prospective clients to the Advisers or prospective investors to the investment funds they manage. This might give the Advisers an incentive to cause client accounts to use those firms as brokers and trade counterparties, whether or not they provide the lowest commission rate or the best transaction prices or terms.

From time to time, brokers (including prime brokers) may assist a fund in raising additional capital from investors. Additionally, brokers may provide capital introduction and marketing assistance services, and representatives of the Advisers may speak at conferences and programs sponsored by the brokers, for investors interested in investing in private investment funds. Through such events, prospective investors in a fund may encounter representatives of the Advisers. Brokers may also provide other services, including, without limitation, consulting services relating to technology and office space. Although neither the Advisers nor any fund compensates brokers for such assistance, events or services, or for any investments ultimately made by prospective investors attending such events, such activities may influence the Advisers in deciding whether to use such broker in connection with brokerage, financing and other activities of their clients. Subject to their obligation to seek best execution, the Advisers may consider referrals of investors to the funds in determining its selection of brokers. However, the Advisers will not commit to an investor or a broker to allocate a particular amount of brokerage in any such situation.

### **Item 13. Review of Accounts**

#### General

The Advisers' investment platform is comprised of three closely integrated but distinct functions: the Investment Research function, the Portfolio Management function and the Trading function. Members of each team typically meet daily. All fund investments (including both purchases and sales) are reviewed per an approval process that addresses credit acceptability approval, portfolio attractiveness approval and final investment approval.

### Investment research

The Investment Research team analyzes current and potential investments, makes research recommendations and provides ongoing oversight of individual investment positions.

Investments are reviewed at least quarterly, upon significant news or events, and upon receipt of an amendment request or other specific action request with respect to a particular loan or other investment. The Investment Committee, which is chaired by the Chief Investment Officer, typically meets daily and ad hoc as necessary. The Investment Committee approves investments, establishes fund and firm-level risk limits and reviews financial and operating performance vs. plan, covenant compliance, collateral valuation, significant events, stress testing and portfolio optimization.

### Portfolio management

Compliance with a client account's particular investment restrictions is the responsibility of the Portfolio Management team, which actively manages applicable client account investment guidelines, including collateral quality and coverage tests and concentration limitations in the case of CLOs.

Typically, an independent custodian or administrator is responsible for preparing periodic reports and distributing them to our client accounts and investors in them. These reports contain information about the client accounts' payments to investors as well as information about the investments in such accounts. The Advisers also review the reports and reconcile their contents against the Advisers' own records.

### Other

The Advisers aggregate the purchase or sale of investments for various client accounts in an effort to achieve best execution for them.

The Advisers may prepare a monthly or quarterly letter and make other information available to investors in client accounts. This information supplements and explains information in the custodians'/administrators' reports. Separately managed account clients and investors in the private investment funds may also receive statements from a custodian and/or an investor letter on a monthly or other periodic basis. Investors in the private investment funds also receive annual audited financial statements.

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

From time to time, the Advisers compensate third parties in connection with referrals of prospective clients and investors. Such solicitation arrangements will seek to conform to Rule 206(4)-3 of the Advisers Act, to the extent applicable. Prospective investors will be informed of such arrangement if applicable and will not be assessed any additional fees. Additionally, in a typical placement arrangement, the funds generally pay the placement agent a percentage of the money raised by the placement agent or a percentage of the Adviser's revenue generated by the money raised by the placement agent.

The Advisers and their Related Persons have an agreement with General Electric Capital Corporation (“GECC”), providing for CIFIC to pay GECC a portion of the management fees in excess of a specified amount that CIFIC receives from clients referred to it by GECC.

### **Item 15. Custody**

Pursuant to Rule 206(4)-2 (the “**Custody Rule**”), the Advisers are deemed to have custody of certain clients’ funds and securities. Therefore, in accordance with the Custody Rule, these assets are maintained with an independent qualified custodian.

The private funds have engaged independent public accounting firms registered with and subject to review by the Public Company Accounting Oversight Board (PCAOB) to perform an annual audit of the private fund in accordance with U.S. Generally Accepted Account Principles. The fund administrator distributes the audited financial statements to the limited partners of the private funds within 120 days of the private funds’ fiscal year end, or within 180 days for fund of funds. Additionally, the fund administrator sends quarterly or more frequent account statements directly to clients; clients should carefully review those statements.

Further to the above, if an Adviser sends account statements to clients, clients should compare those statements to the fund administrator’s account statement.

### **Item 16. Investment Discretion**

The Advisers generally have discretionary authorization with respect to the client accounts they manage, although the Advisers also have non-discretionary accounts. Before they assume discretionary authority, they enter into either an investment management or similar agreement with the client, or a limited power of attorney, establishing the authority and specifying any limitations on the authority. Clients customarily limit the Advisers’ discretionary authority through specific restrictions or requirements relating to the investing the Advisers may conduct for their accounts within such authority, such as restrictions on the types of investments they may make for the account.

### **Item 17. Voting Client Securities**

The Advisers have, and will accept, authority to vote client investments.

The Advisers’ policies for voting investments held by client accounts are, in brief, as follows. The Advisers vote in a manner that they determine, in their discretion, is in the best interest of client accounts and consistent with their duty of care and loyalty to their clients. The Advisers will generally vote for proposals that they believe maximize the value of the relevant investment. The factors they consider will vary from investment to investment and from client to client, and may include market information, liquidity, the debtor’s financial situation, the industry, and client’s investment guidelines and the remaining life of the relevant account (particularly in the case of CLOs).

Although the issue has not arisen to date, if the Advisers were ever to deem there to be a conflict between their interests and those of a client with respect to the voting of a client security, the Advisers would address the conflict by establishing a committee likely including the Chief Investment Officer and the CCO. For example, if a client account holds a defaulting bond whose issuer is negotiating financing with a financial institution with which the Advisers have a business relationship, the committee would review the voting action, and if it determines that no actual conflict is present it will approve the proxy vote.

Clients and investors may (i) obtain information about how the Advisers voted investments held by client accounts, (ii) obtain a copy of the Advisers' proxy voting policies and procedures, and (iii) direct the Advisers to vote in certain situations, in each case, by making a request in writing to the CCO.

#### **Item 18. Financial Information**

A balance sheet is not required to be provided as: (i) fees are not payable to the Advisers more than six months in advance, (ii) the Advisers do not have a financial condition that is likely to impair its ability to meet contractual commitments to clients and (iii) the Advisers have not been subject to any bankruptcy proceeding during the past 10 years.