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Armory Capital Group, LLC

Form ADV Part 2A
Brochure

March 30, 2020

This brochure provides information about the qualifications and business practices of Armory Capital Group, LLC. If you have any questions about the contents of this brochure, please contact David Chittenden at (310) 643-9100 or dchittenden@armorycapital.com.

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 Armory Capital Group, LLC also is available on the SEC's website at: www.adviserinfo.sec.gov. Armory Capital Group, LLC is a registered investment adviser. Registration with the SEC as an investment adviser does not imply a certain level of skill or training.

Item 2 Material Changes

As a registered investment adviser, we endeavor to provide an informational brochure that is current and accurate and makes full disclosure of all material facts relating to our firm the advisory relationship. If there have been any material changes to our business or advisory practices since our last annual update, we will provide a description of such material changes here.

We have not made any material changes to our advisory or business practices since the filing of our last annual updating amendment, dated March 29, 2019.

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Item 4 Advisory Business

Firm Description

Armory Capital Group, LLC ("Armory") is an investment advisory firm that was originally founded in August 2008. Armory was registered with the SEC as an investment adviser from August 2008 to May 2012. In May 2012, Armory withdrew its registration as an investment adviser and became an Exempt Reporting Adviser with the SEC. Armory again registered with the SEC as an investment adviser on October 23, 2013. The sole owner of Armory is Armory Group, LLC ("Armory Group"). The principal owners of Armory Group are Nicholas W. Tell, Jr. and Eben P. Perison.

Advisory Services

Armory primarily serves as adviser or sub-adviser to closed-end management investment companies, private fund clients and other pooled investment vehicles ("Funds") on a fully discretionary basis and specializes in investment strategies with a focus on investments in debt issued by middle market companies and various special situations investing.

Armory's advice is not tailored to the individual needs of investors in the managed funds or investment vehicles. Rather, when managing assets for its clients, Armory remains subject to the investment guidelines and restrictions included in the prospectus, private placement memorandum (the "PPM"), organizational documents or investment management/advisory agreement, as applicable, of each client (the "Governing Documents").

This Part 2A Disclosure Brochure contains a summary of information relevant to the subject headings as stated herein, and no disclosure or other statement contained herein serves as a substitute or shall supersede any of the terms and conditions as outlined in each Fund's Governing Documents. To the extent any of the statements herein conflict with a Fund's Governing Documents, such Governing Documents shall govern, and investors in such Fund will be bound by the terms, conditions, risks and other relevant information contained therein.

Armory Credit Opportunity Fund, LP

Armory Group's wholly owned subsidiary, Armory Credit GP, LLC, acts as the general partner of Armory Credit Opportunity Fund, LP ("ACO") and has delegated its investment management responsibilities to Armory, and as such Armory is responsible for sourcing, negotiating, structuring, and managing ACO's investment portfolio. ACO employs a multi-strategy approach to invest in middle market credit with three primary areas of focus: leveraged loans, discounted high yield bonds and distressed debt.

Armory has agreed in principal to be Sub-Adviser to the Astor Dynamic Credit Fund (the "Fund"), an investment company registered under the Investment Company Act of 1940, as amended ("Investment Company Act"). The fund is a newly organized, continuously offered, non-diversified, closed-end management investment company that is operated as an interval fund. Armory Credit Opportunity Fund (the "Predecessor Fund"), a privately offered fund managed by Armory Capital, is expected to be reorganized into the Fund as of the date the Fund commences operations.

Armory Loan Opportunity Fund, LP

Armory's wholly owned subsidiary, Armory Loan GP, LLC, acts as the general partner of Armory Loan Opportunity Fund, LP ("ALO") and has delegated its investment management responsibilities to Armory, and as such Armory is responsible for sourcing, negotiating, structuring, and managing ALO's investment portfolio. ALO's investment strategy is focused on investments in leverage loans. As of December 31, 2018, all of ALO's capital is from internal Armory sources.

Assets Under Management

As of December 31, 2019, Armory had discretionary assets under management of \$57,398,625.

Item 5 Fees and Compensation

Advisory Fees and Compensation

Armory's fees are described generally below and detailed in each Fund's Governing Documents. Fees for services are negotiated with each client on an individual basis.

Armory is compensated by its clients for its investment advisory services by payment of either or both of the following: (a) a fee equal to an agreed upon percentage of the client's assets under management (each a "Management Fee"); or (b) a performance fee or partnership profit allocation equal to an agreed percentage of the gain achieved by Armory for its client (each a "Performance Fee/Allocation").

Armory's default Management Fee currently ranges between 1.0% - 2.0% per annum of its clients' assets under management. The Performance Fee/Allocation is typically 20% of the increase in the value of the Fund's assets under Armory's management, subject to a high water mark. There is no particular range of Management Fees or Performance Fees that Armory requires from its clients and there are material differences among the actual fee percentages paid by existing clients. In some cases, Armory's Performance Fees/Allocations are subject to hurdle rates or other terms that exclude some of the increase in the value of its clients' investment portfolios from the calculation of the amount of the Performance Fee/Allocation. All fees assessed to the Funds, including the Performance Fee/Allocation noted in Item 6, are fully disclosed to investors in the respective Fund's Governing Documents.

Payment of Fees

Armory may bill its clients for Management Fees or clients may request that fees owed to Armory be deducted directly from the client's custodial account. Armory takes steps to assure itself that the client's qualified custodian sends periodic account statements, no less frequently than quarterly, showing all transactions in the account, including fees paid to Armory, directly to such clients. Armory's Performance Fees/Allocations are sometimes billed to the client and sometimes allocated pursuant to the Fund's Governing Documents and subsequently withdrawn by Armory. Armory and its clients may agree to have Armory bill them for its fees or to have Armory deduct its fees from the client's assets.

Armory bills its clients for Management Fees monthly or quarterly, sometimes in advance and sometimes in arrears. Performance Fees/Allocations are payable monthly or annually in arrears, or more often in the event of redemptions or other specified events with respect to private fund clients. Payment terms are negotiated with each client on an individual basis.

Certain of Armory's clients are required to pay Management Fees in advance pursuant to the terms of the management agreement with Armory. In the event that such a client terminates their management agreement with Armory prior to the end of a billing period, Armory will refund to the client a prorated amount based on the number of days in the billing period prior to the date of termination.

Further details on Armory's fees are set forth in each Fund's Governing Documents.

Additional Fees and Expenses

In addition to compensation for Armory's advisory services, Armory's clients will incur various expenses which may include, without limitation: organization and offering expenses; investment-related expenses (*e.g.* brokerage commissions, interest on margin accounts and other indebtedness, borrowing charges on securities sold short, custodial fees, clearing and settlement charges and interest expenses); research-related expenses, including without limitation, news and quotation equipment and services; fees to third-party providers of risk-monitoring services; fees of the client's administrator; legal expenses; professional fees (including, without limitation, expenses of valuation and other consultants, underwriters, operating partners, joint advisors and experts); auditing and tax preparation expenses; third-party accounting expenses; costs of printing and mailing reports and notices; expenses relating to obtaining insurance; entity-level taxes; other expenses related to the purchase, sale or transmittal of client assets; and extraordinary expenses and other similar expenses related to the client.

Compensation for Sale of Securities or Other Investment Products

Nicholas W. Tell, Jr., Portfolio Manager of Armory, is a registered representative of Armory Securities, LLC ("Armory Securities") and a portion of his compensation is paid by Armory Securities for his role as an Investment Banking Representative. Armory Securities and Armory have implemented procedures with respect to conflicts of interest related to Mr. Tell acting in both capacities. In order to address this conflict of interest, Armory maintains a restricted list related to Mr. Tell's roles at Armory Securities. Armory Securities will not be used as a broker for transactions for Armory's clients.

Item 6 Performance-Based Fees and Side-By-Side Management

The general partner for each Fund is typically entitled to receive performance-based fees. In some cases, Armory and/or its affiliates will receive the Performance Fee/Allocation. Performance-based fee arrangements may create an incentive for Armory to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts with performance-based fees over other accounts in the allocation of investment opportunities. Armory has trade allocation procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients. In general, investment opportunities are allocated pro rata to Armory's clients based on each client's cash available to invest in the applicable opportunity in accordance with the client's investment guidelines and restrictions. All performance-based fees and carried interest distributions are structured in accordance with Rule 205-3 promulgated under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

With respect to ACO, the general partner receives the Performance Fee/Allocation.

Item 7 Types of Clients

Armory serves as an investment adviser or sub-adviser to closed-end management investment companies and private funds and separately managed accounts. The minimum investment amount with respect to each Fund varies and is outlined in the Fund's Governing Documents. The minimum initial investment in ACO is generally \$1,000,000 but is subject to the General Partner's right to accept investments of a lesser amount in its sole discretion. **This Brochure is designed solely to provide information about Armory and should not be considered to be an offer of interests in any private fund.**

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

Methods of Analysis and Investment Strategies

One of the primary guidelines that drives Armory's investment philosophy is an emphasis on preservation of invested capital. To accomplish this goal, Armory conducts extensive due diligence to confirm that capital is invested at a discount to intrinsic asset values. Equally important, Armory looks to invest in companies that are well-positioned in their industry and that are believed through Armory's diligence process to be improving credits, in order to build confidence that the company will be able to pay its debts as they come due.

In addition to understanding credit analysis, Armory also believes that a successful asset manager needs to understand the trading characteristics of the middle market in order to invest successfully. Members of Armory's investment team have invested in middle market credit since the early 1990's and understand the trading dynamics of the market. Armory believes this should help to ensure that investments are bought and sold in a way to maximize returns to investors as well as to provide liquidity when required.

Finally, although Armory invests with the expectation that the companies invested in will be able to pay their debts as they come due, Armory believes restructuring experience is invaluable in helping to understand what can go wrong and helping to identify early warning signs that a company might begin underperforming. Members of Armory's investment team have served on over 50 creditor's committees and have invested in over 100 distressed companies over the past 24+ years. Armory believes that this expertise is an important part of the diligence and monitoring process.

Focus on Credit

Armory seeks to target companies with quality assets and strong competitive positions in their industries. Once identified, Armory conducts fundamental research and performs rigorous credit analyses on such companies. Members of Armory's investment team are also able to use the relationships and resources from their combined experience of investing in and sourcing debt opportunities, as a critical part of the diligence process and to potentially source attractive investment opportunities. Armory believes its focus on credit should generate attractive current yields on debt investments, in addition to any potential capital appreciation.

Middle Market Focus

Armory focuses primarily on companies defined as middle market issuers. Armory defines middle market companies as companies with market-adjusted enterprise value of up to \$2 billion, trailing 12-month EBITDA of \$10-100 million, and / or less than \$1 billion of outstanding debt. Armory is focused on the middle market for reasons that include:

- Armory believes that its ability to diligence companies in the middle market is substantially better than for most larger companies due to better market opportunities due to better access to management. This visibility may allow Armory to find quality, performing companies with attractive risk / reward characteristics. Armory seeks to avoid investments in marginal industry players with questionable long-term enduring value.
- Armory believes that there are more attractive market dislocation opportunities in the middle market.

Armory conducts thorough due diligence to support its analysis that an investment is being made at a discount to fundamental value. Armory uses a credit-based research approach in reviewing investment opportunities. Armory's review process generally includes a three-phase due diligence framework that (1) builds an extensive credit model and then focuses on industry and competitive positioning of the company; (2) utilizes public documents and available financial information but also relies on information obtained from dialogues with management, competitors, customers, suppliers and consultants; and (3) analyzes capital structure, including covenants, and assesses the relative value of opportunity by comparing to other industry participants and to other companies in the overall market with comparable rating and credit statistics.

Associated Risks

The following descriptions are disclosed in summary fashion only. A more complete and thorough description of the risks associated with the particular strategies and investments utilized are fully disclosed in each private fund's Governing Documents.

Investing in securities involves a risk of loss that clients should be prepared to bear. Armory's risk management approach cannot entirely eliminate risk. No assurance can be given that Armory's clients' investment objectives will be achieved and investment results may vary substantially on a quarterly and annual basis. The following risk factors do not purport to be a complete list or explanation of the risks in an investment in Armory's investment universe. These risks include only those Armory believes to be material, significant or unusual and related to particular significant investment strategies or methods of analysis employed by Armory.

Distressed Debt Sector and Concentration

Armory (on behalf of its clients) principally invests in securities and other financial instruments of U.S. domiciled issuers perceived to be heading into or currently in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems or that are involved in bankruptcy or reorganization proceedings. Armory's clients may lose their entire investment in a troubled company, may be required to accept cash or securities with a value less than their investment and may be prohibited from exercising certain rights with respect to such investment. Troubled company investments may not show any returns for a considerable period of time. Funding a plan of reorganization involves additional risks, including risks

associated with equity ownership in the reorganized entity. Troubled company investments may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation. Also, among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. The market prices of such securities are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than normally expected. It may take a number of years for the market prices of such securities to reflect their intrinsic value.

Armory's clients may have significant investments in companies involved in (or the target of) acquisition attempts or tender offers, or in companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, take considerable time or result in a distribution of cash or a new security, the value of which will be less than the purchase price 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, Armory may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which Armory may invest, there is a potential risk of loss by Armory's clients of their entire investment in such companies.

Bankruptcy Cases

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors are generally afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of Armory's clients.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and Armory's clients; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. Although Armory intends to invest primarily in debt securities, the debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that Armory's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors may be quite high.

Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those cases where Armory, by virtue of such action, is found to exercise "domination and control" of a debtor, Armory's clients may lose their priority if the debtor can demonstrate that its business was adversely affected or other creditors and equity holders were harmed by Armory's clients.

Although Armory intends primarily to invest in the distressed debt of U.S. domiciled companies, Armory may also invest in companies in Organization for Economic Co-Operation and Development ("OCED") countries and other non-U.S. countries. Investment in the debt of financially distressed companies domiciled outside the U.S. involves additional risks. Bankruptcy law and process may differ substantially from that in the U.S., resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority, and treatment of claims. In addition, Armory's clients may be subject to the imposition of withholding or other taxes on interest, dividends, capital gain or other income. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

Armory may elect to serve on creditors' committees, official or unofficial, equity holders' committees or other groups to ensure preservation or enhancement of Armory's clients' position as a creditor or equity holder. A number of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If Armory concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to Armory's clients, it will resign from that committee or group, and Armory's clients may not realize the benefits, if any, of participation on the committee or group. In addition and also as discussed above, if Armory is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing or increasing its investments in such company while it continues to be represented on such committee or group.

Armory may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

Equitable Subordination

Armory does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine (defined below), however, because of the nature of the debt obligations, Armory's clients may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

Under common law principles that in some cases form the basis for lender liability claims, if a lender (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors - this is referred to as "Equitable Subordination."

Uncertain Exit Strategies

Due to the illiquid nature of many of the positions which Armory is expected to acquire, as well as the uncertainties of the reorganization and active management process, Armory is unable to predict with confidence what the exit strategy will ultimately be for any given core position, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

Limited Diversification and Concentration

To the extent that a relatively high percentage of Armory's clients' assets are invested in the securities of a limited number of issuers within the debt and distressed debt sectors, and within particular industries within those sectors, Armory's investment portfolio will be more susceptible to any single economic, political or regulatory occurrence, than the portfolio of a diversified investment company or an investment company not so concentrated. In addition, while Armory is subject to certain exposure limitations with respect to its investments, such exposure is determined with respect to each investment as of the time of such investment. Armory's clients' exposure may exceed these limitations from time to time thereafter, and Armory is under no obligation to reduce any such exposure.

Leverage

Armory may borrow money to purchase securities, a practice known as "leverage," which involves certain risks. In this regard, Armory may take margin purchases of securities, borrow money from banks and enter into reverse repurchase agreements. Armory may also borrow money for temporary or emergency purposes to maintain necessary liquidity or to avoid untimely liquidation of portfolio securities.

Trading equity securities on margin involves an initial cash requirement representing at least 50% of the underlying security's value with respect to transactions in U.S. markets and varying (typically lower) percentages with respect to transactions in foreign markets. Borrowings to purchase equity securities typically will be secured by the pledge of those securities. The financing of securities purchases may also be affected through reverse repurchase agreements with banks, brokers and other financial institutions.

Although leverage should increase investment return if Armory earns a greater return on the investments purchased with borrowed funds than it pays for the use of those funds, the use of leverage will decrease investment return if Armory fails to earn as much on investments purchased with borrowed funds as it pays for the use of those funds. The use of leverage will therefore magnify the volatility of the value of Armory's clients' investment portfolios. If Armory's instruments decline in value, Armory's clients could be subject to a "margin call" or a "collateral call" pursuant to which Armory's clients must either deposit additional collateral with the lender or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. If a sudden, precipitous drop in the value of Armory's assets occurs, Armory might not be able to liquidate assets quickly enough to pay off its borrowings. Money borrowed for leveraging will be subject to interest costs that may or may not be recovered by return on the securities purchased, Armory's clients also may be required to maintain minimum average balances in connection with its borrowings or to pay a commitment or other fee to maintain a line of credit; either of these requirements would increase the cost of borrowing over the stated interest rate.

Armory may also make short sales against-the-box, in which it sells short securities it owns or has the right to obtain without payment of additional consideration. If Armory makes a short sale against-the-box, it will be required to set aside securities equivalent in kind and amount to the securities sold short (or securities convertible or exchangeable into those securities) and will be required to hold these securities while the short sale is outstanding. Armory's clients will incur transaction costs, including interest expenses, in connection with opening, maintaining and closing short sales against-the-box.

Hedging Transactions

Armory may utilize a variety of financial instruments, such as short sales, options, swaps, caps and floors, and futures and forward contracts and similar derivatives, both for investment purposes and for hedging purposes. While Armory may enter into hedging transactions to seek to reduce risk, such transactions may not be fully effective in mitigating the risks in all market environments or against all types of risk (including unidentified or unanticipated risks), thereby incurring losses to Armory's clients. In addition, such hedging transactions may result in a poorer overall performance for Armory's clients than if Armory had not engaged in any such hedging transactions. Moreover, it should be noted that (1) Armory may determine not to hedge against, or may not anticipate, certain risks and (2) the portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties).

Short Selling

Short selling involves selling securities which are not owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in market price to the extent that such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which Armory engages in short sales will depend upon Armory's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to Armory of buying those securities to cover the short position. There can be no assurance that Armory will be able to maintain the ability to borrow securities sold short. In such cases, Armory's clients can be "bought in" (i.e. forced to repurchase securities in the open market to return to the lender. There can also be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Default/Credit Risk

To the extent Armory purchases debt instruments or effects transactions in the "over-the-counter" or "interdealer" markets, Armory exposes its clients to the risk that an issuer or counterparty will not settle a transaction in accordance with its terms and conditions, or will default on an obligation, because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing Armory's clients to suffer a loss. Debt instruments or contracts with longer maturities, where events may intervene to prevent settlement, or investments where Armory has concentrated in a single or small group of issuers or counterparties present greater risks.

Risks Related to Particular Types of Investments

Bonds and Other Debt Securities

Armory invests its assets primarily in bonds and other debt securities. Armory may invest in both investment grade and non-investment grade debt securities, including high quality debt securities for temporary defensive purposes and to maintain liquidity. Securities purchased in accordance with Fund's investment program generally will be below investment grade, may not be rated or may be in default. Debt securities include, among other securities: bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by the U.S. Government for one of its agencies or instrumentalities or by a foreign government; municipal securities; and asset-backed securities. These securities may pay fixed, variable or floating rates of interest and may include zero coupon obligations. Debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk).

Investment grade debt securities are securities that have received a rating from at least one nationally recognized statistical rating organization ("NRSRO") in one of the four highest rating categories or, if not rated by any NRSRO, have been determined by Armory to be of comparable quality. Non-investment grade debt securities (typically called "junk bonds") are securities that have received a rating from a NRSRO of below investment grade or have been given no rating, and are considered by the NRSRO to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. Non-investment grade debt securities in the lowest rating categories may involve a substantial risk of default or may be in default. Adverse changes in economic conditions or developments regarding the individual issuer are more likely to cause price volatility and weaken the capacity of the issuers of non-investment grade debt securities to make principal and interest payments than is the case for higher grade debt securities. An economic downturn affecting an issuer of non-investment grade debt securities may result in an increased incidence of default. In addition, the market for lower grade debt securities may be thinner and less active than for higher-grade debt securities.

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. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics, in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases. Typically, convertible debt ranks below senior unsecured debt; however in some instances it may rank *pari-passu*. Institutional investors typically hedge purchases of convertibles by shorting the respective equity. Convertible bond premiums (the price of the convertible bonds above the equity conversion price) fluctuate based on interest rates, prospects for the respective equity and the likelihood of restructuring and resultant recovery potential. Convertibles may be held in the portfolio either hedged or unhedged.

The value of a convertible security is a function of its "investment value" (determined by its yield on comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. Generally, the conversion value decreases as the convertible security approaches maturity. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security is increasingly influenced by its conversion value. A convertible security generally sells at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by Armory's clients is called for redemption, Armory's clients will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on Armory's clients' ability to achieve their investment objective.

Leveraged Loans

Armory may invest in leveraged loans directly or via a vehicle that has entered into a total return swap. Leveraged loan obligations are subject to similar risk parameters as Bonds and Other Debt Securities (as discussed above), however any investments made via a total return swap will inherently have a higher leverage multiple and therefore may be more exposed to price fluctuations. In analyzing each bank loan or participation, Armory compares the relative significance of the risks against the expected benefits of the investment.

Bankruptcy Claims

Armory may invest in bankruptcy claims which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. The markets in bankruptcy claims are not generally regulated by the Federal securities laws or the Securities and Exchange Commission. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

Preferred Stock

Armory may invest in non-convertible preferred stock, which may have fixed or variable dividend rates. Preferred stock generally has a preference as to dividends and in the event of liquidation, but it ranks junior to debt securities in an issuer's capital structure. Preferred stock generally pays dividends in cash (or additional shares of preferred stock at a defined rate. But unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, if the issuer fails to make one or more dividend

payments on the preferred stock no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

Equity Securities

While not the primary focus of Armory's investment portfolio, a portion of its client portfolios may consist of long and short positions in common stocks and other equity securities. The value of equity securities varies in response to many factors, including, but not limited to, the activities and financial condition of individual companies, the business market in which individual companies compete and general market and economic conditions.

Private Funds

Private funds are not subject to the same regulatory requirements as mutual funds. There are substantial risks in investing in private funds. Private funds often involve speculative investments and involve a high degree of risk. An investor could lose all or a portion of the investment. Private funds may be leveraged and as a result the performance may be volatile. There may be little or no operating history or performance. A private fund and its managers may be subject to various conflicts of interest. Strategies to hedge risk may be unsuccessful. Private funds may use a single strategy, which could mean a lack of diversification. Private funds may execute a substantial portion of trades in securities that involve higher risk. An investment in a private fund may be illiquid. A private fund may involve a complex tax structure. Private funds may not provide transparency regarding the underlying assets. This is not a complete list of the risks involved in investing in private funds.

Closed-End Registered Investment Companies

Registered Investment Companies are subject to the funds' managements' abilities to manage the underlying portfolios to meet the funds' stated investment objectives. Closed-End Funds, unlike open-end funds which trade at prices based on a current determination of a fund's net asset value, frequently trade at a discount to their net asset value in the secondary market. Additionally, many Closed-End Funds employ leverage to achieve greater returns. A leverage strategy often increases the volatility of such CEFs.

Commodities and Derivative Investments

The prices of commodities contracts and derivative instruments, including futures and options, are highly volatile. Payments made pursuant to swap agreements may also be highly volatile. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, Armory's clients' assets are also subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties.

Armory may buy or sell (write) both call options and put options, and when it writes options, it may do so on a "covered" or an "uncovered" basis. A call option is "covered" when the writer owns securities of the same class and amount as those to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. Armory's option transactions may be part of a hedging strategy (*i.e.*, offsetting the risk involved in another securities position) or a form of leverage, in which Armory has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

In general, without taking into account other positions or transactions Armory may enter in to, the principal risks involved in options trading can be described as follows: When Armory buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in investment in the option (including commissions). Armory could mitigate those losses by selling short or buying puts on, the securities for which it holds call options, or by taking a long position (*e.g.* by buying the securities or buying calls on them) in securities underlying put options.

When Armory sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is covered. If it is covered, Armory would forego the opportunity for profit on the underlying security should the market price of the security rise above the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss Armory's clients might suffer as a result of owning the security.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk.

Collateralized Debt

Backed by specified collateral, secured debt may become distressed when collateral value erodes or in the case of recourse debt, when the issuer itself becomes distressed and the collateral value is uncertain. To the extent Armory invests in obligations secured by collateral (*i.e.*, private debt obligations or over-the-counter transactions), it incurs the risk that such collateral will not be adequate to protect Armory if the issuer or counterparty were to become insolvent. Therefore, Armory's clients may lose some, or all of their investment in collateralized obligations. Additionally, even if such collateral is adequate, Armory could expect delays in receiving such collateral. In bankruptcy, holders of non-recourse collateralized debt are entitled to the proceeds from the sale of collateral but do not have recourse to the issuer. Holders of recourse debt have a claim against the issuer if the collateral value does not cover the collateralized debt claim. Holders may receive cash, new debt, equity or nothing for their claim on the company.

Senior Unsecured and Subordinated Debt

Frequently the unsecured and/or the subordinated debt of a company is the pivotal part of a distressed company's capital structure. In a reorganization or bankruptcy holders of these securities may get full recovery, partial recovery in the form of new debt and or equity, or may get no recovery. Accordingly, when a company is in distress the price movements of these securities can be highly volatile. Armory will spend much time focusing on opportunities in this area of the capital structure, due to the large degree of uncertainty regarding valuation and recovery prospects while a company is experiencing financial difficulties. Many mutual funds and managed portfolios contain strict limitations on the quality of their holdings, and in times of financial distress credits experiencing negative ratings action or volatile price movements may be sold with little concern about the actual value of the securities. This situation affords opportunities for portfolios capable of incurring risk.

Global Investments

Armory may invest a portion of its assets in the debt or other securities and instruments of issuers located outside the U.S. In addition to business uncertainties, such investments may be affected by political, social and economic uncertainty affecting a country or region. Many financial markets are not as developed or as efficient as those in the U.S. and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly as to bankruptcy and reorganization. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such companies.

The returns on debt securities of non-U.S. issuers reflect interest rates and other market conditions prevailing in those countries. If such non-U.S. debt securities are dominated in currencies other than the U.S. dollar, the effect of gains and losses in the non-U.S. dollar currencies against the U.S. dollar may have a substantial impact on the value of such non-U.S. dollar denominated debt securities. The relative performance of various countries' fixed income markets historically has reflected wide variations relating to the unique characteristics of each country's economy. Year to year fluctuations in certain markets have been significant, and negative returns have been experienced in various markets from time to time.

Investment in the debt of financially distressed companies domiciled outside the U.S. involves additional risks. Bankruptcy laws and process may differ substantially from that in the U.S., resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

Illiquid Investments

Armory may invest in securities or other assets which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and Armory may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. Armory may not be able to readily dispose of such illiquid investment and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. In addition, Armory may be prohibited by applicable securities laws for a period of time from selling securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available. The sale of restricted and illiquid assets often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may be carried on the books of Armory at a discounted value. There is no guarantee that such securities could be sold at such price.

Item 9 Disciplinary Information

Armory has no information to report in this section.

Item 10 Other Financial Industry Activities and Affiliations

Nicholas W. Tell Jr., Portfolio Manager of Armory, is a registered representative of Armory Securities, LLC. Mr. Tell provides investment banking services for certain companies that are clients of Armory Securities. Armory Securities and Armory have implemented procedures with respect to conflicts of interest related to Mr. Tell acting in both capacities.

Armory Securities, LLC, a broker dealer, is an affiliate of Armory. Armory Group, LLC is the majority member of Armory Securities. Armory Securities and Armory share supervised persons and the same physical location. Armory Securities will not be used as a broker for transactions for Armory's clients.

Armory Credit GP, LLC, an affiliate of Armory serves as General Partner to ACO. Armory does not receive additional advisory fees with respect to client assets that are invested in ACO. These assets are subject only to the fund fees and charges applicable to all investors in ACO as explained in the fund's private placement memorandum.

Armory Strategic Partners, LLC ("Armory Strategic"), an affiliate of Armory provides strategic advisory and operational turnaround consulting services to its clients. Armory Strategic and Armory share the same physical location but do not share supervised persons.

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

Code of Ethics Description

Armory has adopted a written Code of Ethics (the "Code") pursuant to Rule 204A-1 under the Advisers Act. The purpose of the Code is to set forth standards of conduct expected of advisory personnel and address conflicts, such as front running, that arise from personal trading by advisory personnel. Specifically, the Code requires that advisory personnel act in or not opposed to the best interests of the Funds, act in good faith and in an ethical manner, avoid conflicts of interest to the extent reasonably possible, and identify and manage conflicts of interest to the extent that they arise. Advisory personnel are also required to comply with applicable provisions of the federal securities laws and make prompt reports to Armory or another appropriate party of any actual or suspected violations of such laws by Armory, its employees, advisory personnel, or independent contractors.

In addition, the Code sets forth formal policies and procedures with respect to the personal securities trading activities of any personnel deemed to be "access persons". The Code also includes policies and procedures to prevent the misuse and disclosure of material non-public information ("insider trading") and other confidential information by all employees, advisory personnel and/or independent contractors. Further, the Code includes policies to mitigate conflicts of interest among access persons, by requiring reporting of outside activities, gifts, and business entertainment, and political contributions. Armory will provide a complete copy of its Code to any client or investor upon request by contacting us at the telephone number on the cover page of this brochure.

Participation or Interest in Client Transactions

As a matter of policy, Armory does not typically engage in principal transactions or agency cross transactions.

Armory may cause a client to purchase a security that has been sold by another client to provide liquidity as desired by a client, meet trade allocation objectives or achieve other investment objectives for the clients. This may be due to the illiquid nature of many of the securities that Armory recommends to Clients. Armory will generally execute such trade through a third party broker-dealer. Alternatively, with respect to the transaction price, the transaction price may be obtained from a quotation from another third party dealer or from an independent pricing service if the transaction price is not supplied by the executing broker-dealer. Armory does not receive any commission or other compensation from participating accounts. These transactions will only be affected where Armory believes that the transaction is in the best interest of, and is in accordance with the investment policies of, each client.

Armory and its related persons are engaged or may engage in investment activities for private investment companies, other registered investment companies, other accounts that may pursue investment strategies similar to those of Armory or for its clients. These accounts may from time to time purchase, sell or hold certain investments which are also being purchased, sold or held by Armory for its clients.

There may be instances in which Armory or its affiliates may make co-investments with a Fund. Any such investments are generally disclosed to the investors in the relevant Fund and may be subject to certain limitations under the Fund's Governing Documents.

To mitigate any potential conflict of interest associated with co-investments, co-investors (including affiliates of Armory) generally will participate with a Fund in any co-investment on the same terms and conditions as the Fund.

Armory has a financial interest in ACO, which it serves in an advisory capacity. Armory's advisory role and related compensation is disclosed in the relevant private placement memorandum or accompanying fund organization document and those documents are provided to each prospective client prior to investment in ACO. Armory's employees devote as much of their time to the activities of ACO as Armory deems necessary and appropriate.

Item 12 Brokerage Practices

Armory's objective in selecting broker-dealers and in effecting portfolio transactions is to seek to obtain the best combination of price and execution with respect to its accounts' portfolio transactions. The best net price, giving effect to brokerage commissions, spreads and other costs, is normally an important factor in this decision, but a number of other judgmental factors are considered as they are deemed relevant. In applying these factors, Armory recognizes that different broker-dealers may have different execution capabilities with respect to different types of securities. Factors Considered in Selecting or Recommending Broker-Dealer for Client Transactions:

- price of the security;
- commission rates;
- commitment of capital;
- reliability, stability and financial responsibility of the broker;
- access to company management;
- operational facilities of the broker;
- access to deal flow;
- provision or payment by the broker of the costs of research and research-related services; and
- the firm's risk in positioning a block of securities.

Armory may combine orders for the purchase and sale of securities on behalf of investment advisory clients, including accounts and collective investment vehicles in which Armory or its associated persons may have an interest. Aggregation of transactions will occur only when Armory believes that such aggregation is consistent with Armory's duty to seek best execution and best price for clients and is consistent with Armory's investment advisory agreement with each client for which trades are being aggregated, Armory currently provides investment advice to private funds and will generally select brokers to place any trades. Armory may permit a client to direct brokerage. If a client directs brokerage, Armory may be unable to achieve most favorable execution of client transactions. Directing brokerage may cost clients more money. For example, in a directed brokerage account, the client may pay higher brokerage commissions because Armory may not be able to aggregate orders to reduce transaction costs, or the client may receive less favorable prices.

Item 13 Review of Accounts

Armory's Portfolio Manager has primary responsibility for reviewing the client portfolios. On a continual basis, the Portfolio Manager evaluates the performance of the portfolios and endeavors to ensure that the acquisition and disposition of securities is in accordance with the clients' investment objectives and restrictions. Generally, each client's portfolio is reviewed as needed depending on factors such as planned exits from positions in a portfolio, changes in objectives or restrictions or changing market conditions.

Armory provides monthly reporting, at a minimum, to clients regarding their accounts.

Item 14 Client Referrals and Other Compensation

Armory (together with its affiliates) have entered into selling/referral agreements with third-party placement agents to market its related fund(s) to potential investors. The third-party placement agents that are retained are typically paid a retainer fee along with a referral fee as stipulated in each selling agreement. Any placement agent engaged by Armory or its affiliate, shall be a registered broker-dealer with the U.S. Securities and Exchange Commission ("SEC") and member of the Financial Industry Regulatory Authority ("FINRA").

Item 15 Custody

Armory currently is deemed as having custody since a related person serves as General Partner to ACO. All client assets and securities are maintained at independent qualified custodians. ACO is subject to an annual audit and distributes audited financial statements to its investors within 120 days after each fiscal year end. Such financial statements are prepared in accordance with generally accepted accounting principles (GAAP) and audited by KPMG, an independent public accountant registered with and subject to regular inspection by the Public Company Accounting Oversight Board.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Armory takes steps to assure itself that the client's qualified custodian sends periodic account statements, no less frequently than quarterly, showing all transactions in the account, including fees paid to Armory directly to such clients in accordance with the Custody Rule, as defined in the Advisers Act of 1940.

Item 16 Investment Discretion

In all cases, Armory exercises discretionary authority in managing securities on behalf of its clients. In all cases, Armory's discretion is limited by each Client's investment guidelines and Armory's internal policies. Clients may separately negotiate limitations on Armory's discretion or include such limitations in account investment guidelines. All such account investment guidelines and restrictions will be set forth in writing.

Item 17 Voting Client Securities

Armory recognizes its fiduciary responsibility to vote proxies solely in the best interests of its clients with the overall goal of maximizing the growth of its clients' assets. Toward that end, Armory has developed proxy voting guidelines, which it uses to vote proxies for securities held in client accounts. Armory will not have the ability to accept direction from clients on a particular solicitation.

Armory generally votes proxies in furtherance of maximizing the value of securities in respect of which proxies are solicited. Armory considers each proxy proposal on its own merits, and it makes an independent determination as to the advisability of supporting or opposing management's position. Armory believes that the recommendations of management should be given substantial weight, but it will not support management proposals that it believes are detrimental to maximizing the value of its clients' positions.

Armory will generally oppose proposals that dilute the economic interest of shareholders, reduce shareholders' voting rights or otherwise limit their authority. With respect to takeover offers, Armory will generally vote for the merger, acquisition or leveraged buy-out if the offer approaches or exceeds the value estimate.

Election of Boards of Directors

Generally votes IN FAVOR OF:

- Candidates proposed by a company's Board of Directors
- Board's Recommendation to increase/decrease size of a Board

Generally votes AGAINST:

- Shareholder proposals to limit the tenure of outside directors
- Proposals to classify or stagger the Board.

Tender Offer Defenses

Generally votes IN FAVOR OF:

- Shareholder proposals that ask a company to submit its poison pill for shareholder ratification
- Proposals to restrict greenmail payments

Generally votes AGAINST:

- Management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations

Corporate Structure and Shareholder Rights

Generally votes IN FAVOR OF:

Generally votes AGAINST:

- Restrict or prohibit shareholder ability to call special meetings
- Management proposals to change the size of the Board without shareholder approval

Corporate and Social Policy Issues

Generally votes IN FAVOR OF:

Generally votes AGAINST:

- Decisions that protect clients' economic interests

From time to time proxy proposals may present conflicts between the interest of clients and Armory, its employees and its affiliates. Such conflicts may arise when proxy votes on non-routine matters are solicited by an issuer that has a business relationship with Armory or its affiliates. If Armory receives a proxy and has knowledge that one or more of the proposals in the proxy raises a conflict of interest that is material, Armory will vote the proposals according to the policies of an independent third party.

Clients may request information on how Armory has voted proxies for their clients and may request Armory's Proxy Voting Policies and Procedures by contacting:

Armory Capital Group, LLC
1230 Rosecrans Avenue, Suite 660
Manhattan Beach, CA 90266
(310) 643-9100

Item 18 Financial Information

Armory does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Armory has no financial commitments that impair its ability to meet contractual and fiduciary commitments to client. Armory has not been the subject of a bankruptcy proceeding.