

**Item 1. Cover Page**

**Congruent Investment Partners, LLC**

**Form ADV – Part 2A: Firm Brochure**

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This Brochure provides information about the qualifications and business practices of Congruent Investment Partners, LLC. If you have any questions about the contents of this Brochure, please contact us at (214) 760-7411. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

A copy of this Brochure and additional information about Congruent Investment Partners, LLC are also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Registration with the SEC does not imply a certain level of skill or training.**

**Item 2. Material Changes**

We last filed our Brochure on March 31, 2019. There have been no material changes made to our Brochure since our last filing.

## **IMPORTANT NOTE ABOUT THIS BROCHURE**

### **This Brochure is not:**

- **an offer or agreement to provide advisory services to any person**
- **an offer to sell interests (or a solicitation of an offer to purchase interests) in any Fund (as defined in Item 4, below)**
- **a complete discussion of the features, risks or conflicts associated with any Fund or Advisory Service**
- **to be relied on in determining whether to invest or establish an advisory relationship**

As required by the Investment Advisers Act of 1940, as amended (the “Advisers Act”), Congruent Investment Partners, LLC (“Congruent”) provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors in a Fund, together with other relevant offering materials (such as subscription agreements, offering memoranda, operating agreements or advisory contracts), prior to, or in connection with, such persons’ establishment or consideration of an investment advisory relationship with Congruent or an investment in a Fund. Additionally, this Brochure is available through the Securities and Exchange Commission’s (“SEC”) Investment Adviser Public Disclosure website.

Although this publicly available Brochure describes investment advisory services and Funds managed by Congruent, persons who receive this Brochure (whether or not from Congruent) should be aware that it is designed solely to provide information about Congruent as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in relevant offering materials. In addition, more complete information about each Fund, as well as Congruent’s investment advisory services, is included in relevant offering materials, certain of which may be provided to current and eligible prospective clients or investors only by Congruent or an administrator or placement agent. To the extent that there is any conflict between discussions herein and similar or related discussions in any offering materials, the relevant offering materials shall govern and control.

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#### **Item 4. Advisory Business**

Congruent Investment Partners, LLC (“Congruent” or “we”), a Delaware limited liability company, is an alternative asset management firm. Congruent was founded in March 2009 by Preston L. Massey and Travis P. Baldwin, the sole principal owners of the firm.

Congruent provides advisory services to private investment funds (the “Funds”) and managed accounts (together with the Funds, the “Clients”). Congruent primarily invests on behalf of our Clients in middle market loans and other corporate debt. These debt investments often include an equity investment component. However, our Clients’ investment mandates allow for a broad range of investments and investment strategies. Please refer to ‘Item 8. Methods of Analysis, Investment Strategies and Risk of Loss’ for further discussion on the types of investments and investment strategies Congruent may pursue on behalf of our Clients.

The governing documents for each Client outline the investment mandate of the Client account in addition to any restrictions placed on the investment activities of the account. These restrictions include limitations on the types of investments that can be made, limitations on the use of leverage, concentration limits to certain companies, industries, or asset types, as well as the amounts and types of expenses that are paid by the Client account, among other restrictions.

Congruent and certain of Congruent’s affiliates serve as general partners or special limited partners to the Clients and are allocated performance-based fees.

In addition to providing investment advisory services to Clients, Congruent may establish co-investment vehicles (a “Co-Investment Vehicle”) at any time. A Co-Investment Vehicle is an investment entity formed specifically for the purpose of investing alongside one or more of Congruent’s Clients, but only after the Client accounts have received their allocation, if any, as determined by Congruent’s allocation policy.

Congruent has full discretion with regard to investment decisions made on behalf of the Funds and partial-discretion with regard to certain other Clients.

As of December 31, 2019, Congruent has \$217,519,120 of regulatory assets under management. Of these assets, \$205,344,676 is managed on a discretionary basis and \$12,174,444 is managed on a non-discretionary basis.

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

Congruent, or our affiliates, primarily receive compensation in the form of management fees, which are typically calculated as a percentage of assets under management, and performance-based fees (collectively, “Fees”).

### **Fund Clients:**

Congruent receives investment management fees based on a percentage of Fund assets under management, paid quarterly in advance, calculated at an annual rate (typically 1.50%) of capital commitments or equity capital invested adjusted downward for equity distributions and other than temporary credit impairments. If an advisory contract is terminated before the end of the billing period, the Client account will be credited on a proportionate basis dependent on the amount of time the advisory contract was in effect for the period.

In addition to investment management fees, Congruent, or an affiliated entity, is entitled to receive performance-based fees (“Carried Interest”) from the Funds. The Carried Interest amount is calculated after the cumulative distributions from the respective Fund to its investors equal the aggregate capital contributions made by the investors to the Fund plus a per annum internal rate of return, compounded annually, on the aggregate capital contributions for the period the capital contributions were outstanding (the “Preferred Return”). The Preferred Return rates for Congruent’s Funds can vary from one Fund to the next depending on the market environment at the time of fundraising. The Carried Interest amount is generally limited to 20% of a Fund’s net profits over its life. Each Fund also contains a “catch-up” provision where, once the Preferred Return is earned by a Fund’s investors, the Fund’s profits are allocated toward Carried Interest in a larger percentage until the 20% cap is reached. Congruent has discretion to charge a Carried Interest amount less than 20% for certain investors in the Funds.

After the final liquidation of the assets of a Fund, if the total Carried Interest payments made by the Fund exceed the Carried Interest percentage defined in the Fund’s governing documents, the excess Carried Interest will be returned to the Fund, net of any taxes paid or payable on the excess amount. Additionally, to the extent Carried Interest payments were made by the Fund and unpaid Preferred Return exists, Carried Interest payments will be returned to the Fund, net of taxes paid or payable on the excess amount, to reduce any unpaid Preferred Return amounts in the Fund.

In addition to investment management fees, certain Funds also bear some costs and expenses related to asset management services, which are based on a percentage of assets under management, paid quarterly in advance, calculated at an annual rate (typically 0.10%) of capital commitments or equity capital invested adjusted downward for equity distributions and other than temporary credit impairments.

Congruent or the appropriate general partner to a Fund, from time to time, by virtue of a side letter agreement, provides certain investors, but not all investors, terms of investment that are more favorable than the terms outlined in the respective Fund offering documents. Such terms typically include a reduction or waiver of some or all of the Fees, additional reports or information, or more favorable transfer rights, among other terms.

### **Managed Account Clients:**

Congruent typically earns management fees and performance-based fees from the managed accounts we advise. The management fees and the performance-based fees for managed accounts are negotiated on an individual basis.

### **Additional Fees or Expenses**

Client accounts incur expenses related to the purchase, holding and disposition of investments made on their behalf, which typically include, but are not limited to, some or all of the following: brokerage commissions, acquisition fees, referral fees, agent fees, and other fees related to the purchase, holding, servicing, administration or disposition of assets; due diligence expenses (including, without limitation, investment-related travel expenses and expenses of consultants and experts' fees relating to particular portfolio assets), broken deal expenses, agent, custodian, servicer, administrator, and trustee fees, expenses and indemnities, portfolio asset or collateral protection advances or expenses, clearing and settlement charges, fees and expenses of any nature relating to a workout or exercising rights and remedies with respect to Client assets; legal and accounting expenses, including both internal and external, and a Client's portion of any fees, costs, expenses and indemnities associated with forming and participating in any joint venture, subsidiary or other vehicle through which a Client holds an indirect investment; professional fees (including, without limitation, fees and expenses of administrators, servicers, custodians, attorneys, accountants, consultants, valuation firms and experts) incurred by a Client or by Congruent on behalf of a Client; fees and expenses related to financial and tax reporting and otherwise providing information to Clients and investors; independent valuation and pricing services; insurance and indemnity expenses including without limitation, expenses related to D&O insurance, errors and omissions insurance, and to lender liability insurance, in each case covering the Clients, Congruent and its respective employees and affiliates; and other customary or extraordinary expenses or other amounts related to a Client and its activities or incurred by Congruent on behalf of a Client. Expenses incurred on behalf of more than one Client shall be allocated among such Clients on a fair and equitable basis, in the sole discretion of Congruent. Please refer to Item 12 of this Brochure for further disclosures related to brokerage practices.

It is Congruent's practice in direct lending transactions which it leads, where possible, to take a deposit from a prospective borrower to cover due diligence expenses. These deposits are typically paid to CIP Administrative, LLC ("CIP"), a wholly-owned subsidiary of Congruent. By taking

deposits from prospective borrowers, Congruent is mitigating the risk that broken deal expenses are charged to our Clients and is incentivizing the prospective borrower to execute the transaction with Congruent. We believe the act of taking deposits is of significant benefit to our Clients, as the expenses the deposits typically cover are expenses which our Clients have agreed to pay if the borrowers do not, as outlined in detail in this Item 5 above.

Clients participate as a lender in all or portions of new credit facilities to middle market companies. Congruent or an affiliate may arrange the origination of such new credit facilities, may syndicate new credit facilities to Clients and/or third parties, and may act as agent for such new credit facilities.

In acting as agent, Congruent or an affiliate has received, in some instances in the past, and is expected to receive, from time to time in the future, compensation from borrowers for services performed by Congruent or an affiliate related to such credit facilities, principally for administrative agent services relating to Congruent-led direct lending transactions. It is anticipated that most, if not all, Congruent-led transactions will involve such arrangement. Loan documentation governing the Client's relationship with borrowers generally requires an administrative agent. We believe, in certain situations, our affiliated administrative agent, CIP, can provide more assured services than a third party, and as a result, all Congruent-led direct lending transactions to date have used CIP as administrative agent; however, while CIP has performed services as agent in all of these transactions, it has not been compensated for such services in every transaction. For the calendar year 2019, CIP received \$260,000 for such services, all of which was paid by borrowers. The administrative agent services performed by CIP are different from the advisory services provided by Congruent that are outlined in the investment management agreements between Congruent and our Clients. However, CIP, since its inception, has had the same ownership as Congruent and is now a wholly-owned subsidiary of Congruent. Congruent personnel continue to provide services to CIP.

A conflict of interest may exist between Clients and Congruent or its affiliates in connection with the administrative agent fees that are paid to CIP by Congruent borrowers. While our Clients have contractually agreed to bear the cost of administrative services in situations where the borrowers do not cover such expenses, we believe it is in our Clients' best interest for the borrowers to pay such expenses rather than our Clients. None of our Clients have ever directly paid CIP or Congruent for administrative agent services, and it is not our practice to charge a Client account when a borrower underpays such fees to CIP. Furthermore, it is CIP's practice to suspend or terminate such fees in the event of an insolvency of the borrower. This is a benefit to Congruent's Clients in using a related party as opposed to a third-party administrator. There is no guarantee that CIP will continue to be used as administrative agent for all future Congruent-led direct lending transactions.

Congruent, or an affiliate, will in certain cases provide services, including consulting, advisory, director, managerial and operational, to portfolio companies for compensation paid by the respective portfolio company, which will not be offset against the management fees paid to Congruent by the Clients (collectively, the “Portfolio Company Advisory Fees”). These services may be required to assist in the operations of portfolio companies, above and beyond the services that are expected of Congruent under the respective Client advisory agreements and that Congruent is compensated for by the management fees. While Congruent believes these services should provide a material benefit to the portfolio companies and, by extension, the Clients as an investor in the portfolio companies, it cannot be guaranteed that they will have this effect. Furthermore, the charging of such fees to portfolio companies will present a conflict of interest between the party receiving such fees, most likely Congruent, and the Clients. This conflict will be more pronounced in cases where the Clients are invested in the equity of the portfolio company. For the calendar year 2019, neither Congruent nor any affiliate received any Portfolio Company Advisory Fees.

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

Congruent may earn performance-based fees in all Client accounts that we manage depending upon whether the overall performance of the account is at a level that exceeds the Preferred Return amount due to investors (*see Item 5 for more detail on the performance fee calculation*). We recognize that potential or perceived conflicts of interest can arise from advising Clients with different fee structures, most notably between Client accounts with different performance-based fee calculations. To address these conflicts, Congruent has developed a policy based on several factors in order to allocate trades among Clients. Please refer to the “Allocation of Investments” section in Item 12 for further information regarding Congruent’s allocation policy. Additionally, Congruent’s Code of Ethics (the “Code”), described in Item 10 below, requires Congruent personnel to act in accordance with the firm’s fiduciary duty to Clients. Conflicts of interest that may be associated with side-by-side management of Client accounts in which Congruent or its personnel have differing compensatory or other pecuniary interests include:

- *Congruent has an incentive to allocate investment opportunities based on its interests.* From time to time, Congruent selects investment opportunities that are insufficient to satisfy all eligible accounts and will face a conflict of interest when considering how to allocate these limited investment opportunities among Clients having different fee structures or pecuniary interests. Through the allocation policy, the Code and other policies and procedures, Congruent seeks to promote fair and equitable treatment of Client accounts, over time, based on considerations that are unrelated to pecuniary interests.
- *Congruent has an incentive to take on more risk when compensation is based on performance.* The receipt of performance-based compensation creates an incentive to make riskier investments than might be made in the absence of performance-based compensation as such compensation generally allows participation in gains without equal exposure to losses. Congruent seeks to mitigate this conflict by monitoring the risk profile of Client accounts.
- *When compensation is based on the value or performance of investments, Congruent has an incentive to value a position at a price higher than it might otherwise be valued or to accelerate or defer realizations.* Performance allocations are based on increases in the net assets of a Client account, and may include unrealized appreciation as well as realized appreciation. This means that Congruent could be compensated on performance that is ultimately not realized if positions decrease in value and are subsequently sold at a loss. The potential for inflated valuation of positions is increased when such positions are illiquid or otherwise lack a readily ascertainable market value. Congruent seeks to mitigate this conflict through its written valuation policies and procedures as well as through the use of market prices, where available, and the use of third-party valuation firms where appropriate.

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

As described in Item 4, Congruent's Clients are private investment funds and managed accounts. The minimum investment is generally \$1,500,000 to \$2,000,000 for investors in our Funds, but we have discretion to accept lower minimum investments under certain circumstances.

The minimum account size for establishing a managed account is negotiable; however, Clients and potential clients should be aware that if a particular managed account is too small, it is possible that the account may be unable to participate in certain investments due to minimum investment levels required for a particular investment and/or a lack of available investment capital. For this reason, Congruent typically does not accept small managed account clients.

Each of the Funds and the managed account currently advised by Congruent are considered private funds with regard to the firm's Form ADV filing. However, we have made a distinction between our Fund and managed account clients within this filing to differentiate and call attention to the differences between these two types of accounts. Congruent typically has full discretion over the investments made by the Funds and is also deemed to have custody of Fund assets. In contrast, Congruent does not have full discretion over the investments made by the managed account and does not have custody of the managed account's assets (except to the extent CIP Administrative, LLC temporarily holds assets belonging to the managed account in conjunction with CIP's role as administrative agent to credit facilities in which the managed account owns an interest) (Refer to Item 15. Custody for further discussion on CIP's role as administrative agent as it relates to custody of client assets).

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

Our Client portfolios typically consist of assets such as loans, bonds, other debt instruments, and certain equity interests, among other specialty assets (*see more detailed list below*). Our methods of analysis include qualitative and quantitative analyses. Our quantitative analysis generally includes a financial evaluation of the company. Qualitative analysis generally includes an industry analysis as well as an analysis of the primary risks facing the company and/or investment. We also evaluate the legal structure of the investment, identifying potential risks.

Below is a summary of the types of assets in which Clients may invest, depending on the mandate of each Client's governing documents:

*Primary Middle Market Debt:* Clients participate as a lender in all or portions of new credit facilities to middle market companies. Such facilities may include, but are not limited to, first-lien and second-lien senior secured loans, junior secured loans, mezzanine loans, unsecured debt, bridge loans, structured letters of credit, delayed draw loans, revolving credit facilities and debtor-in-possession ("DIP") facilities. Congruent or an affiliate may arrange the origination of such new credit facilities, may syndicate new credit facilities to Clients and/or third parties, and may act as agent for such new credit facilities.

*Secondary Middle Market Debt:* Clients purchase debt in middle market companies in the secondary market. Such purchases may include, but are not limited to, first-lien and second-lien senior secured loans, junior secured loans, mezzanine loans, unsecured debt, bridge loans, structured letters of credit, delayed draw loans, revolving credit facilities and DIP facilities.

*Syndicated Bank Debt:* Clients purchase syndicated bank debt in both the primary and secondary markets, which debt may be originated by banks or others, including, without limitation, first-lien and second-lien senior secured loans, junior secured loans, mezzanine loans, unsecured debt, bridge loans, structured letters of credit, delayed draw loans, revolving credit facilities and DIP facilities.

*Corporate Bonds:* Clients invest in senior secured and unsecured corporate bonds through both the primary and secondary markets.

*Real Estate:* Clients can make primary and secondary investments backed primarily by real property, including, without limitation, first-lien and second-lien mortgage loans, B pieces in mortgage loans, mezzanine loans, construction loans, delayed draw loans and DIP facilities.

*Other Credit Investments:* Clients can acquire direct and indirect investments targeting niche financial asset classes including, without limitation, portfolios and individual whole loans which are themselves, or are secured or otherwise backed by, consumer assets, equipment loans, small business loans, small commercial and industrial loans, real property, mineral interests, intellectual property, leases, inventory, and receivables, as well as trade claims and litigation claims.

*Equity Investments:* Clients will acquire direct or indirect equity, including but not limited to, warrants, preferred equity, common equity or other investments. This may include, but is not limited to, private equity investments and investments acquired as part of or through liquidations, corporate restructurings, bankruptcies and/or in conjunction with a loan or other credit investment. Equity investments may be on either a control or minority basis.

*Credit Default Swaps (CDS):* Clients can purchase or sell credit protection through CDS or loan credit default swaps (LCDS) as a credit hedge against a primarily long credit portfolio or opportunistically in situations where Congruent believes the credit protection is mispriced given the referenced company's underlying credit metrics and industry outlook.

In addition to direct investments, Clients may make indirect investments in assets of the nature described above through joint ventures, subsidiaries and other vehicles which may be formed or entered into by Congruent in order to acquire, aggregate, leverage or appropriately service the assets owned thereby.

While Congruent expects that most Client assets will be in U.S. domiciled entities or persons, Clients may also make non-U.S. investments, subject to any restrictions or limitations in each Client's governing documents.

## Risks

As with any form of investing, Client investments possess risk of loss due to changes in financial, operational, managerial, legal, industrial, political, economic, structural, environmental, or regulatory circumstances, among many other factors.

The following is a summary of some of the material risks associated with an investment in a Congruent Fund or managed account. It should not be considered a comprehensive list. Investors should refer to the governing documents and/or private placement memorandum for a more detailed explanation of the risks associated with each Client account.

*General Investment and Trading Risks.* An investment in a Client account involves risks, including, but not limited to, the risk that the entire amount invested may be lost. The Clients will invest in assets with risks including, but not limited to, the volatility of the credit markets, the risks of borrowings, the illiquidity of the investments and the risk of loss the underlying company, obligor, issuer or counterparty defaults. No guarantee or representation is made that a Client's investment program will be successful or that its investment objective will be achieved. The Clients may invest in portfolio assets directly, or indirectly through joint ventures, subsidiaries and other vehicles, and may utilize such investment techniques as limited diversification, leverage and derivatives trading, which practices can, in certain circumstances, increase the adverse impact to which the Clients may be subject.

*Illiquid Portfolio Assets.* A significant amount of Client capital is invested in middle market loans, equity and other portfolio assets that are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such portfolio assets may not be readily ascertainable and may fluctuate significantly and Congruent may not be able to exit them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of illiquid portfolio assets often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of investments eligible for trading on national securities exchanges or in the over-the-counter markets. Due to significant restrictions on transfer, Client assets may sell at a price lower than investments that are not subject to restrictions on resale. Because valuations of illiquid assets are inherently uncertain, the determinations of market value of any such assets may differ materially from the values that may ultimately be attained in the sale of any such portfolio asset. In addition, given the limited trading market for illiquid portfolio assets and the uncertainty as to their market value at any point in time, if Congruent seeks to sell an illiquid portfolio asset, it may not be able to do so at a favorable price or at all.

*General Economic Risk.* Companies and obligors with respect to portfolio assets are susceptible to general economic downturns, that may be widespread in the case of recessions or depressions or industry or regionally specific, which may result in a deterioration of financial performance and may cause such obligors or companies to be unable to meet covenant requirements or service their obligations for indefinite periods of time. This could lead to default and, consequently, termination of an investment or write down or other reduction in value, and the exercise of remedies with respect to collateral securing such investment. To the extent that a Client's realizable claim on the collateral securing an asset, if any, does not equal or exceed the unamortized purchase price together with all interest then due or capitalized thereon, the Client could suffer losses.

*Investments in Small and Mid-Size Businesses.* Clients typically invest a significant portion of their capital in loans and certain other portfolio assets made primarily to small and mid-size privately-held businesses. There is generally no publicly available information about these businesses. Some obligors may not meet net income, cash flow and other coverage tests typically imposed by traditional lenders. Loans to small businesses and middle market businesses may carry more inherent risks than loans to larger, publicly-traded entities. These companies generally have more limited access to capital and higher funding costs, may be in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks. Accordingly, loans made to small businesses and middle market companies involve higher risks than loans made to companies that have larger businesses, greater financial resources or are otherwise able to access traditional credit sources. A deterioration in an obligor's financial condition and prospects may be accompanied by deterioration in a Client account's investment or the collateral securing the investment, if any. Such deterioration might impair the ability of the obligor to obtain refinancing or force it to seek to have the loan restructured. As a result, Clients may experience a loss on their investment.

*Refinancing risk.* A significant portion of Client capital typically will be used to acquire balloon loans and bullet loans and other assets which may require refinancing. Balloon and bullet loans involve a greater degree of risk than other types of transactions because they are structured to allow for either small (balloon) or no (bullet) principal payments over the term of the loan, requiring the obligor to make a large final payment upon the maturity of the loan. The ability of an obligor to make final payment upon the maturity of a debt obligation typically depends upon its ability either to refinance the loan prior to maturity or to generate sufficient cash flow to repay the asset at maturity. If an obligor is unable to refinance a loan, the loan may not be paid in full or sold by the end of the scheduled term of a Client, which may lead to an extension of the term of the Client account or in-kind distributions or forced liquidations of the remaining assets of the account, which could lead to losses for investors.

*Secured Loans.* A significant portion of a Client's capital will be invested in secured debt, which is typically collateralized by some or all the assets of a specific company or entity. These debt instruments are typically extremely complex, governed by lengthy legal documentation. The risk of loss of capital can be great. Some secured loans may not necessarily have priority over other debt issued by a company or entity and may not necessarily be collateralized by all of a company's or entity's assets. Underlying asset values can be volatile and are subject to credit, liquidity, economic, and interest rate risk, among other factors.

*Subordinated Debt, Second Lien Loans, Mezzanine Loans, Unsecured Bonds, and other Unsecured or Subordinated Debt Instruments.* Clients will typically acquire, subject to any limitations in the governing documents, junior, subordinated, and/or unsecured assets. These assets typically involve a higher degree of risk than senior secured loans because the investor will be limited in pursuing its rights and remedies under these types of loans. As a result of their junior nature and a Client's limited rights and remedies, the ability to collect principal and interest on these loans or to recover any of the loan balance through a foreclosure of collateral may be impaired. Moreover, any amounts that a Client might realize as a result of its collection efforts or in connection with a bankruptcy or insolvency proceeding involving an obligor under these assets must generally be turned over to the more senior lender until the more senior lender has realized the full value of its own claims. These restrictions may materially and adversely affect a Client's ability to recover the principal of any non-performing junior or unsecured asset. As a result, the Client could suffer losses.

*Restructurings.* Congruent typically has broad authority to execute amendments, waivers, modifications and other changes to the loans and other Client assets. In periods of economic downturns, it is likely that restructurings will increase. There is no guarantee that a restructuring will maximize the value of or any recovery on any such Client asset. Any restructuring can fundamentally alter the nature of the related asset and restructurings are not subject to the same underwriting standards that are employed in connection with the origination or acquisition of the asset. For example, a restructuring may result in lowering the priority of a lien or security interest

in collateral and/or to the exchange of debt for lower priority debt and/or equity. Any restructuring could alter, reduce or delay the payment of interest or principal from any Client asset and result in extension of the term of the asset, which could delay the timing of and reduce distributions made to investors.

*Bankruptcy.* There is a significant risk that one or more of the obligors or companies may enter bankruptcy proceedings. Such proceedings may result in, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of the related investment. There are a number of significant risks inherent in the bankruptcy process. First, rulings in a bankruptcy case are the product of adversary proceedings determined by a court with equitable powers, and are beyond the control of specific creditors. Second, a bankruptcy filing may adversely and permanently affect the obligor making the filing. The obligor may lose its market position, key employees, relationships with important suppliers, access to the capital markets or other sources of liquidity and otherwise become incapable of restoring itself as a viable entity. If for this or any other reason a Chapter 11 reorganization is converted to or becomes a liquidation, the liquidation value of the obligor may not equal the liquidation value that was believed to exist at the time of purchase of the investment. Third, the duration of a bankruptcy case is difficult to predict. A creditor's return on investment can be adversely affected by delays while a plan of reorganization is being negotiated, approved by parties in interest and confirmed by the bankruptcy court until it ultimately becomes effective. For example, in general, unsecured creditors' claims for interest accrued between the bankruptcy filing and a reorganization plan's consummation are not allowed. Fourth, the administrative costs of the debtor and official committees in connection with the bankruptcy case are frequently high and will be paid out of the debtor's estate prior to any return to general unsecured creditors. If the bankruptcy case involves protracted or difficult litigation, or turns into a liquidation, substantial assets may be devoted to such administrative costs; a creditor's costs in monitoring and enforcing its investment also may substantially increase. Certain claims that have priority by law (for example, claims for taxes) also may be significant. Finally, under certain circumstances, creditors' claims against bankrupt or insolvent entities may be subject to equitable subordination or re-characterization as equity (particularly where the creditor is an insider or otherwise controls the debtor), and transfers made to creditors may be subject to avoidance and disgorgement as preferences or fraudulent conveyances. Bankruptcy of an obligor could reduce or eliminate the return to the Client on the related investment and thereby impair distributions to the investors.

*Real property loans.* The Clients may acquire real estate loans or other loans secured in whole or in part by real estate. Real estate values are affected by a number of factors, including (i) changes in the general economic climate, (ii) local conditions (such as an oversupply of space or a reduction in demand for space), (iii) the quality and philosophy of management, (iv) competition based on rental rates, (v) attractiveness and location of the properties, (vi) financial condition of tenants, buyers and sellers of properties, (vii) quality of maintenance, insurance and management services, (viii) changes in operating costs and (ix) environmental conditions with respect to the related

property. Real estate values are also affected by such factors as government regulations (including those governing usage, improvements, zoning and taxes), interest rate levels, availability of financing and potential liability under changing environmental and other laws. In particular, environmental laws could result in lender liability for environmental remediation costs. Under environmental laws, a secured party that takes a deed in lieu of foreclosure, that acquires a mortgaged property at a foreclosure sale or that, prior to foreclosure, has been involved in decisions or actions which either may demonstrate operational control of the obligor or may lead to contamination of a property, may be liable, among other things, for the costs of cleaning up a contaminated site. If real estate secures a loan and an uninsured loss or a loss in excess of insured limits occurs, any such loss could adversely affect the delinquency, default or liquidation experience of the related loan. Any deterioration in the value of any real estate securing a real estate loan could cause the investors to suffer losses with respect to their investment therein and, if an adverse environmental condition exists with respect to any real estate, could expose Clients to environmental remediation costs and/or liability under certain circumstances.

*Non-U.S. Investments.* Subject to their governing documents, Clients may invest, in part, in assets, the obligors of which are organized under the laws of, or all or substantially all of the assets of which are located in, a country other than the United States. Such investments may involve greater risks than investments with U.S. obligors or secured by collateral in the U.S. These risks include (i) less publicly available information about the related obligor and/or different accounting standards than United States generally accepted accounting principles being applicable, (ii) varying levels of governmental regulation and supervision, (iii) the difficulty of enforcing legal rights in a foreign jurisdiction and related uncertainties as to the status, interpretation and application of laws, (iv) possible adverse political and economic developments, (v) possible seizure or nationalization of non-U.S. deposits and (vi) possible adoption of governmental restrictions that might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Moreover, the economies of individual non-U.S. countries may differ from the U.S. economy in significant respects such as the effect of a global recession, growth or contraction of the gross domestic product, rate of inflation, volatility of currency exchange rates and other factors significant to the viability of the business prospects of the related obligor. Accordingly, investments with non-U.S. obligors could face risks which would not pertain to investments with U.S. obligors or secured by collateral in the U.S., which could expose Clients to losses on such loans. In addition, income received by a Client from sources within some countries may be reduced by withholding and other taxes imposed by the countries. Any taxes paid by the Client will reduce its net income or return from such investments.

*Asset Backed Loans.* The Clients may invest in asset backed loans. Asset backed loans typically are secured by individual assets or a pool of assets, such as inventories, account receivables, consumer receivables; loans and leases; trade receivables; property, plant, and equipment; intangible assets; and other assets. The risk of asset backed loans depends both on the underlying

assets and the legal structure of the loan. For example, credit card receivables are generally unsecured and the debtors entitled to the protection of a number of state and federal consumer credit laws. Asset backed loans may not be based on assets which have the benefit of a security interest in collateral or, if such underlying assets are secured, they may be under-secured or secured by collateral which is of such a small value that it is not worth realizing on it. There is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these loans. Furthermore, these loans may require a scheduled principal payment as well as require or permit unscheduled payment from the voluntary prepayment, refinancing or foreclosure of the underlying assets. As a result of these unscheduled payments of principal, or prepayments on the underlying assets, the price and yield of asset backed loans can be adversely affected. For example, during periods of declining interest rates, prepayments can be expected to accelerate, and the Client accounts would be required to reinvest the proceeds at the lower interest rates then available. In addition, like other interest-bearing loans, the values of asset backed loans generally fall when interest rates rise, but when interest rates fall, their potential for capital appreciation is limited due to the existence of the prepayment option.

Asset backed loans are underwritten based primarily on the quality and collateral provided by the assets and not on the enterprise value or cash flow ability of the obligor. Asset backed loans are often backed by an individual asset or a pool of assets representing the obligations of a number of different parties and use a variety of credit enhancement techniques such as letters of credit, guarantees or other contracts which create counterparty credit risk. The value of an asset backed loan is affected by changes in the market's perception of the asset backing the loan, the creditworthiness of the servicing agent for the assets, the originator of the assets and/or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

*Non-Investment Grade or Distressed Securities.* The Clients may invest in "below investment grade" securities and loans and other obligations of companies with over-leveraged balance sheets or in weak financial condition. These companies may be experiencing poor operating results including, but not limited to, negative earnings, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities and obligations are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. 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 the issuers. These investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. The companies' securities may be considered speculative, and the ability of the companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within the

companies. In addition, there is no minimum credit standard that is a prerequisite to a Client's investment in any asset, and a significant portion of the loan and other obligations and securities in which the Clients invest are unrated or rated less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that Congruent will correctly evaluate the creditworthiness of the obligor or issuer of an asset for a Client, the value of any assets collateralizing any such asset or the prospects for a successful reorganization or similar action of any such obligor or issuer. In any reorganization or liquidation proceeding relating to a company in which a Client invests, the Client may lose its entire investment, may be required to accept cash or securities with a value less than the Client's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Client's investments may not compensate the investors adequately for the risks assumed.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) 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 loan or other obligation or security in respect to which the distribution was made.

*Litigation.* Reorganizations can be contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. It is possible that Congruent, its affiliates, and/or a Client may be named as defendants in civil proceedings. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the respective Client and would reduce net assets or could require investors to make a capital contribution.

*Investing in Equity.* Subject to their governing documents, the Clients routinely acquire equity securities or options or rights to acquire equity securities. Equity securities have no specified maturity date, may have significant restrictions on sale or transfer which may make them difficult to sell and/or unable to be distributed in kind to the investors by the end of the scheduled term of the respective Client. The value of stocks and other equity securities generally fluctuate more than debt instruments and can decline in value over short or extended periods. The value of stocks and other equity securities will be affected as a result of changes in a company's financial condition and in overall market and economic conditions. Stock and other equity securities are the most subordinate interests in the capital structure of a company and, in a bankruptcy, dissolution or liquidation of the company, are generally paid after all creditors are paid in full. Equity securities owned by a Client may have no value or lose value.

*Directorships or Similar Role of Issuers.* Officers, members, partners, employees and consultants of Congruent and/or the Clients may serve as directors or officers of certain investments of the Clients or companies in which the Clients invest, and, in that capacity, will be required to make decisions that they consider to be in the best interest of such companies. In certain circumstances, for example in situations involving the bankruptcy or near-insolvency of a company, action that may be in the best interest of the issuer may not be in the best interest of the Client, or actions that may be in the best interest of the Client, may not be in the best interest of the issuer. In these situations, there may be conflicts between an individual's duties as an officer, employee or consultant at Congruent and such individual's duties as a director or officer of the issuer. Furthermore, the Client may face liability (directly or as a result of indemnifying an individual acting as an officer or director) arising from any such service with such a company.

*Hedging, Commodities and Derivatives.* Subject to their governing documents, the Clients may utilize derivative financial instruments including, but not limited to, forward contracts and options for commodities, currency derivatives, credit default swaps, loan credit default swaps and interest rate swaps, caps and floors to seek to hedge against, as applicable, (i) changes in market interest rates and currency exchange rates (with respect to any non-U.S. investments which are not dollar denominated), (ii) risks with respect to portfolio assets dependent on commodity prices which are not required to be hedged against by the related obligor or with respect to which Congruent deems the hedging requirement insufficient and (iii) credit events.

Congruent is not required to attempt to hedge assets in the Client accounts and, for various reasons, may determine not to do so. Furthermore, Congruent may not anticipate a particular risk so as to hedge against it. While the Clients may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance than if the hedging transaction had not been entered into by the Client account. Moreover, it should be noted that the Clients will always be exposed to certain risks that cannot be hedged.

*Credit Default Swaps.* Subject to the governing documents, the Clients may purchase or sell credit protection through credit default swaps or loan credit default swaps as a credit hedge against a primarily long credit portfolio or opportunistically. A credit default swap or a loan credit default swap, as applicable, is a contract between two parties in which the "buyer" of credit protection agrees to pay the "seller" of credit protection a periodic stream of payments over the term of the contract and the seller agrees to pay the buyer the agreed upon value of the contract upon the occurrence of a credit event with respect to a referenced obligor or referenced loan. Generally, a credit event means bankruptcy, failure to pay, obligation acceleration and/or modified restructuring, as specified in the contract. Swap transactions dependent upon credit events are priced incorporating many variables upon which market participants have divergent views including, but not limited to, the likelihood of a credit event occurring and potential loss upon default, among other factors. If a credit event fails to occur when a Client has bought credit protection, the Client will have paid a periodic stream of payments to the counterparty but would

receive no economic benefit from the contract (other than the protection provided by it as a hedge against credit events of obligors or portfolio assets in which the Client holds long positions). As a seller of credit protection, a Client would receive the stream of periodic payments but would be subject to exposure up to the notional amount of the swap should a credit event occur thereunder and likely would be required to post collateral.

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

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (i) intentionally takes an action that results in the undercapitalization of an obligor to the detriment of other creditors of such obligor, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control an obligor to the detriment of other creditors of such obligor, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination.” Because of the nature of the loans, Clients and the loans may be subject to claims of equitable subordination. If an officer, member or employee of Congruent is acting as a director, or officer of a portfolio company or as a member of a creditors’ committee, the likelihood of equitable subordination may be greater.

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

*Credit Losses.* A credit loss will occur if it is determined that all or part of the principal of a particular loan or other debt instrument has become unrecoverable and will not be repaid, or for loans or other debt instruments purchased at a discount, if determined that a Client will not recover the acquisition price thereof.

*Fraud.* Management, accounting, or other types of fraud are a risk in nearly all investing. However, the risk is often elevated in smaller companies. Many of the obligors in whose loans and other securities the Clients will invest are small companies that may be using small local

accounting firms as their auditors, increasing the risk of accounting fraud. In certain cases, Congruent may rely upon unaudited financials produced by the obligor when making investment decisions. The lack of information and transparency available from some obligors, especially those with shorter track records or those smaller in size, increases the risk of fraud. As a result, the Clients could suffer losses.

*Use of Leverage.* Subject to their governing documents, certain Clients will issue debt for purposes of increasing their purchasing power. This debt could be in the form of a subscription facility for capital calls, a credit facility on an entire Client account, or a credit facility on an individual investment or a portion of investments. Should a Client default on such debt, the lender may, among other things, receive distributions with respect to the assets, acquire title to the assets or liquidate the assets. In any such circumstance, the Client could suffer losses. Money borrowed by a Client will be subject to interest costs, which will be an expense of the Client, and, to the extent not covered by income attributable to the assets acquired, will adversely affect the operating results of the Client.

*Uncertain Exit Strategies.* Subject to the governing documents, Clients are permitted to acquire portfolio assets which mature after the end of the term of such Clients, certain portfolio assets may be extended during the term of a Client beyond their original maturity date to a date after the end of the term of the Client and certain assets may default and not be resolved prior to the end of the term of a Client. If the term of a Client ends prior to payment in full of any asset, due to the illiquid nature of many of the assets which the Client is expected to acquire, it is difficult to predict with confidence what the exit strategy will ultimately be for any given investment (or price which may be obtained in connection therewith) or that an exit strategy 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. This risk may lead to an extension of the term of the Client or in-kind distributions or forced liquidations of the remaining assets of the Client, which could lead to losses for investors.

*Non-Performing Assets.* It is anticipated that certain assets acquired for the Clients will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such portfolio assets and the Clients may not receive back the full amount of their investment or expected return thereon.

*Valuation.* It is likely that most of the assets owned by the Clients will not be traded on an exchange, making valuation subject to Congruent's judgment. To the extent that Congruent values Client assets, it will be conducted in good faith by Congruent based on U.S. generally accepted accounting principles and in accordance with Congruent's valuation policies and procedures, as may be amended from time to time. Because valuations of illiquid assets are inherently uncertain, the determinations of market value of any assets may differ materially from the values that may ultimately be attained in the sale of any portfolio asset. When valuing illiquid assets, Congruent

may consider various factors, information and data deemed to be pertinent, including, but not limited to, any of the following: purchase cost, estimates of liquidation value, prices received in recent sales of portfolio assets of the same or similar issuer, liquidity of the portfolio asset, and changes in the financial condition and prospects of the obligor, issuer or counterparty, as applicable.

*No Market for Limited Fund Interests; No Right to Transfer, Withdraw or Require Redemption; Mandatory Transfer.* An investment in a Client requires the financial ability and willingness to accept significant risk and illiquidity. Investors may not receive the complete return of their investment (if at all) until an undeterminable point in the future. There is no public market for interests in the Clients and one is not expected to develop. Interests are typically subject to significant transfer restrictions. Among other things, investors may not be permitted to sell, transfer, assign or pledge all or any portion of their interests, except by operation of law, without the prior written consent of Congruent or its affiliates. Investors typically may not withdraw from the Clients, as there are no redemption rights. Investors also may not require the Clients to redeem their interests.

**Item 9. Disciplinary Information**

Congruent, its principals, and employees have not been the subject of any legal or disciplinary events that are material to our advisory business.

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

Congruent and its principals do not have other relationships or arrangements in the financial services industry that pose material conflicts of interest.

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

### **Code of Ethics**

Congruent has adopted a Code of Ethics designed to promote compliance with the firm's standards of ethical and business conduct and to address potential conflicts of interest. Congruent's Code of Ethics sets forth that employees must observe a standard of ethical and business conduct consistent with Congruent's fiduciary duty to clients. The Code of Ethics also states Congruent's employees must comply with federal and state securities laws and applicable regulatory requirements. Congruent, as an investment adviser, owes a fiduciary duty to clients. Congruent and our employees must uphold a fiduciary duty to clients, act with the utmost good faith, provide full and fair disclosure of all material facts and exercise care to avoid misleading clients.

Congruent's Code of Ethics outlines the firm's policies and procedures for addressing conflicts related to the possession of confidential information, employee personal trading, and the giving and receiving of gifts.

Congruent's Code of Ethics and compliance procedures prohibit employees from personal securities trading in companies for which Congruent has obtained material non-public information. Employees may maintain personal brokerage and retirement accounts but must request and receive approval from the firm's Chief Compliance Officer prior to executing certain security transactions and employees must provide to Congruent, on a quarterly basis, securities holding reports and signed certifications of compliance with the personal trading policy.

The Code of Ethics is available to investors and prospective investors upon request.

### **Principal Transactions**

Principal Transactions occur when an investment adviser, acting as principal for its own account, purchases a security from, or sells a security to, a Client.

Congruent, its affiliates and employees may engage in Principal Transactions with Clients per the applicable provisions of the Investment Advisers Act of 1940. Any Principal Transaction must be in the best interest of the Client and any disclosure or approvals required under the governing Client documents must be met. Typically, Fund governing documents require advisory board approval of the valuation in a Principal Transaction.

## **Cross Trades**

Cross Trades involve the purchase or sale of a security between two Clients, both of which are managed by the Congruent or an affiliate.

Congruent, its affiliates and employees may engage in Cross Trades between Clients if it is determined that the trade is in the best interest of both Clients, in accordance with Congruent's fiduciary responsibility to each Client. Furthermore, any disclosures or approvals required under the governing Client documents must be met. Typically, Fund governing documents require advisory board approval of the valuation in Cross Trades.

## **Item 12. Brokerage Practices**

### **Broker Selection**

Congruent has discretion in selecting brokers for our Clients. Congruent primarily selects brokers based on which can provide best execution for Client transactions. Other factors we may consider when selecting brokers include liquidity in a certain investment, market knowledge regarding specific investments or industries, overall cost of a transaction, and the broker's ability to settle transactions in a timely manner. Congruent is under no obligation to select the lowest commission cost for a transaction if it determines other non-monetary factors are of more importance in broker selection.

In many cases, Congruent's transactions on behalf of Clients are privately negotiated and do not involve the use of a broker or dealer. In those cases, Congruent seeks to negotiate and execute transactions in an efficient manner, consistent with its fiduciary duties to Clients.

### **Trade Errors**

Trade errors may occur from time to time in a Client account. Generally, trade errors are transactions that were executed in a way that was not intended. Congruent will take steps it believes are reasonable to detect trade errors and will promptly take the necessary action to correct any trade errors. If a third party creates a trade error, Congruent will seek to recover any losses from the third party responsible for the trade error. In determining the corrective action necessary to correct a trade error, Congruent acknowledges conflicts could arise between it and the Clients affected by the trade error. Absent gross negligence by Congruent, Clients may bear losses from trade errors. Congruent will act in a manner consistent with its fiduciary duty to Clients in handling conflicts that arise from correcting trade errors.

### **Soft Dollars**

Congruent does not accept soft dollar benefits nor do we solicit investor referrals from brokers. Congruent does, however, receive research and other research services from brokers, as such research is commonly made available to all of a broker's clients. Congruent may on occasion utilize such research when making an investment decision. Congruent does not view this research as a material part of its decision making process and believes this creates no material conflict of interest with regard to which brokers Congruent selects for trades.

### **Aggregating Trades**

Dependent on Congruent's judgment of the trading strategy and the dynamics of the transaction and the market, Client orders will be aggregated if Congruent believes it to be economically beneficial to the Clients.

### Allocation of Investments

Congruent allocates investments among Clients based on its judgment and in a manner that treats each Client in a fair and equitable manner over time. We will take steps to ensure no Client is systematically disadvantaged over time.

In making allocations of investments, Congruent will review the investment objective, strategy, limitations and risk profile of each Client, as well as any other factors that appear relevant at the time, in order to determine which Client accounts are appropriate for an investment.

These other factors include whether a Client is permitted to hold the type of instrument in question and, if so, any limitations on amount; whether a Client account could benefit from increased diversification or reduced industry concentration; whether an allocation to the Client would improve diversification or concentration; how much of the instrument the Client already owns; the duration of the investment; the investment capacity of the Client as a result of cash on hand, capital commitments or anticipated additional cash; the minimum unit size in which the instrument trades; and any other relevant factors.

Congruent also requires Clients be in good standing before receiving an investment allocation. Among other factors, Clients must have an executed advisory contract in place and Clients must be current with regard to fees due to Congruent in order to be considered in good standing. Based on its assessment of the relevant factors and the amount of the instrument sought or obtained, Congruent then allocates the instrument among the selected Client accounts.

In the instance Congruent seeks to participate in a new issue of an investment where the amount of the issue Congruent may receive, if any, is uncertain, Congruent will generally allocate the investment among Clients at the time the amount of the investment Congruent will receive is confirmed. Transaction costs will be shared pro rata among Client accounts in accordance with final allocations.

Congruent seeks to extend co-investment opportunities by forming Co-Investment Vehicles, with the primary goal of benefitting its Client accounts in a manner that is consistent with Congruent's disclosures to investors, and with a secondary goal of making available appropriate opportunities on a fair basis consistent with the primary goal, to those Fund investors that have expressed interest in co-investment opportunities, when circumstances warrant, but without precluding club deals or other circumstances where particular third-party investors may be value-add. Third-party investors can potentially add value that benefits Congruent's Clients in several ways including, but not limited to, by bringing relevant expertise to a transaction or for developing relationships for future deal sourcing opportunities.

Where Congruent believes a situation is most appropriate for co-investment by a Fund investor, Congruent will first seek to offer it to Fund investors who it believes might be interested and able to participate. Where Congruent believes that a situation is better satisfied by a "club deal" with

another industry participant or third-party investor, Congruent will first seek a club deal. Where Congruent believes that a situation is equally suited to either scenario, it will exercise its judgment in seeking outside money from either or both sources.

It is likely that, at times, it will be necessary to bring a large investor, who has the ability to, independently of Congruent, underwrite and execute transactions of the type in which Congruent typically invests, into a deal at an early stage in order to secure the transaction for Congruent's Clients. Congruent typically does this when the deal size is too large for Congruent on its own, and the company is sensitive to this sizing issue and unlikely to support a broader Fund investor co-investment process or club deal process. Congruent believes such instances benefit Congruent's Clients because they are able to participate in transactions that Congruent may not be able to secure otherwise.

There is no guarantee that co-investment opportunities will be provided and, if provided, there is no guarantee that they will be made available to all Fund investors. The determination of which Fund investors, if any, receive a co-investment and the amount thereof shall rest solely with Congruent in its complete discretion. Congruent and its affiliates may receive management fees or carried interest in connection with any co-investment.

**Item 13. Review of Accounts**

Client accounts are actively monitored on an ongoing basis by Congruent. Among other factors, Congruent considers investment diversification, portfolio credit risk, individual investment performance, duration, and expected rates of return as part of its continuing review.

**Reports to Clients**

Congruent engages an independent public accounting firm to conduct an annual financial statement audit of our Fund clients. In addition to the annual audit, Fund investors also receive, on a quarterly basis, statements reflecting the value of their investment in the Fund and unaudited financial statements for the quarter. Managed account clients receive reports as outlined in their respective governing documents.

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

At this time, Congruent does not pay referral fees or any other compensation to third parties for referring prospective investors to Congruent.

## **Item 15. Custody**

Due to certain arrangements, Congruent is deemed to have “custody” of assets held by certain Clients, including the Funds, within the meaning of Rule 206(4)-2 under the Advisers Act.

Where Congruent is deemed to have custody of a Fund’s cash or securities, Congruent typically provides (or causes to be provided) to each investor in the Fund a copy of the Fund’s audited financial statements within 120 days following the relevant Fund’s fiscal year end. Investors who do not receive audited financial statements timely should contact Congruent immediately. Congruent typically has custody over Fund assets.

Where Congruent is deemed to have custody of the assets of a managed account, or in instances where an annual audit is not performed on a Fund, the custodian for such Clients will send the investors periodic account statements (generally on a quarterly basis) indicating the amounts of any funds or securities in the custodial account as of the end of the statement period and any transactions in the account during the statement period. For Fund clients, the custodian will send periodic account statements to each of the Fund’s limited partners. Clients should review these statements carefully and should immediately contact Congruent if account statements are not received from the custodian on at least a quarterly basis. To the extent Congruent, pursuant to the relevant advisory contract or otherwise, separately provides reports or account statements, Clients should compare the statements provided by Congruent to the account statements received from the custodian. If there are any discrepancies between the account statements, please contact Congruent immediately. Subject to the Client’s governing documents and operating structure, Congruent may or may not have custody of managed account assets.

In conjunction with Congruent’s, or an affiliate’s, typically CIP’s, role as administrative agent on certain Congruent-led credit facilities with multiple lenders, Congruent has established a bank account with a qualified custodian (the “Agency Account”), in CIP’s name, in order to facilitate the movement of cash to and from the lenders and the borrowers, as applicable, as required under the governing documents of the credit facilities. Congruent is deemed to have custody of the assets in the Agency Account which will consist of both Client assets and assets belonging to third-party lenders or the borrowers.

**Item 16. Investment Discretion**

Congruent accepts discretionary authority over the securities accounts of the Funds we manage. Each Fund's limited partnership agreement typically grants the respective Fund's general partner discretion to appoint, and confer discretionary investment authority to, the Fund's investment manager. The Fund's investors accept this appointment upon their execution, and the general partner's acceptance, of the Fund's subscription agreement.

Congruent's managed account clients typically maintain partial investment discretion over their respective accounts.

**Item 17. Voting Client Securities**

Congruent's investment management agreements with our Fund clients permit us the authority to cast all votes with regard to securities owned by the respective Fund. For these purposes, voting includes the exercise of rights with respect to loans and fixed income securities. Congruent has adopted a voting policy that provides we act in our Clients' best interests in determining how to vote positions.

Congruent may vote Client securities on behalf of managed account clients unless the governing documents state otherwise.

Congruent will vote Client securities after careful consideration has been given to the items presented on each ballot and appropriate disclosures have been made to Clients, as necessary under the governing documents, in the event the issue up for election raises a conflict of interest between Congruent and the Client.

Upon request to Congruent at the contact information included on the cover page of this Brochure, Congruent will provide to any Client or Fund investor: (i) a copy of Congruent's voting policies and procedures; or (ii) information as to how Congruent voted with respect to the relevant Client.

**Item 18. Financial Information**

Congruent does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance.

At this time, Congruent's financial condition would not materially adversely affect its ability to meet its obligations to Clients under the respective governing documents.