

Item 1: Cover Page

Form ADV Part 2A: Firm Brochure

March 2020

# Jones Road Capital Management, L.P.

757 Third Avenue  
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New York, NY 10017

This “**Brochure**” provides information about the qualifications and business practices of Jones Road Capital Management, L.P. (hereinafter “**Jones Road**”, “**we**”, “**us**”, “**our**” or the “**Firm**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“**CCO**”), Robert Renda, by email at [compliance@jonesroad.com](mailto:compliance@jonesroad.com). Information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (“**SEC**”) or by any state securities authority.

Registration as an investment adviser does not imply that Jones Road or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

Additional information about Jones Road Capital Management, L.P. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

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This Brochure is Jones Road's updated Form ADV Part 2A from its most recent filing made on November 27, 2019.

There have been no material changes made to the Brochure since the most recent filing.

Clients and prospective Clients should review this brochure carefully.

### Item 3: Table of Contents

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Item 2: Material Changes .....	- 2 -
Item 4: Advisory Business .....	4
Item 5: Fees and Compensation .....	5
Item 6: Performance-Based Fees and Side-By-Side Management.....	7
Item 7: Types of Clients .....	7
Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss.....	8
Item 9: Disciplinary Information.....	31
Item 10: Other Financial Industry Activities and Affiliations .....	31
Item 11: Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading .....	31
Item 12: Brokerage Practices.....	34
Item 13: Review of Accounts.....	36
Item 14: Client Referrals and Other Compensation.....	36
Item 15: Custody.....	37
Item 16: Investment Discretion.....	37
Item 17: Voting Client Securities .....	37
Item 18: Financial Information.....	38

## Item 4: Advisory Business

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Jones Road Capital Management, L.P. (hereinafter “**Jones Road**”, “**we**”, “**us**”, “**our**” or the “**Firm**”) was founded in 2017 by Aaron Wertentheil (the “**Principal**”). Jones Road is a New York based alternative asset management firm that employs a special situations strategy for credit and other assets. The Principal leads an experienced investment team focused on identifying opportunities in complex, idiosyncratic situations that may arise in the traditional investment areas of corporate credit, equities, capital and business structures and events, structured credit, government credit, credit derivatives, hard assets and other financial instruments. Please see Item 8 of this Brochure for a more detailed description of the Firm’s investment strategies and types of investments. Prior to founding Jones Road, the Principal was a Partner of Eton Park Capital Management, a multi strategy investment firm with more than \$14 billion under management at its peak.

Jones Road is organized as a Delaware limited partnership with a principal place of business in New York, New York. The Firm is a registered investment adviser as of November 15, 2018.

The Principal, as the managing member of Jones Road Management, L.L.C., (the “**General Partner**”) a Delaware limited liability company that serves as the general partner of the Firm, controls Jones Road.

We serve as the investment adviser, with discretionary trading authority, to private, pooled investment vehicles (the “**Jones Road Funds**” or “**Funds**”) the securities of which are generally offered through a private placement memorandum to accredited investors, as defined under the Securities Act of 1933 (the “**Securities Act**”). We also provide investment advisory services to a separately managed institutional account (and may do so with other Clients (as defined below) in the future) (“**SMAs**”) through an applicable investment management agreement (“**Investment Management Agreement(s)**”). Hereafter the **Funds** and **SMAs** managed by the Firm collectively are referred to as the “**Clients**”.

*This Brochure does not constitute an offer to sell or a solicitation of an offer to buy any securities. The Funds’ securities are offered and sold on a private placement basis under exemptions promulgated under the “**Securities Act**” of 1933 and other applicable state, federal or non-U.S. laws. Significant suitability requirements apply to prospective investors in the Funds, including requirements that they be “accredited investors” as defined in Securities Act and “qualified purchasers” as defined in the Investment Company Act of 1940. Persons reviewing this Brochure should not construe this as an offer to sell or a solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.*

Our investment decisions and advice with respect to the Jones Road Funds are subject to each fund’s investment objectives and guidelines, as set forth in its respective “**Offering Documents**.” The investment objectives and guidelines of an SMA would be determined in conjunction with the applicable Client.

We do not currently participate in any Wrap Fee Programs.

Determined as of December 31, 2019, we have regulatory assets under management of \$232.5 million, rounded to the nearest \$100,000 managed on a discretionary basis and no assets under management on a non-discretionary basis.

Jones Road has entered into an arrangement with a strategic investor, whereby the strategic investor provided a significant capital commitment in respect of certain funds managed, or to be managed, by Jones Road, subject to certain terms and conditions. In consideration for such capital commitment,

the strategic investor is entitled to, among other things, receive a minority share of the revenues generated by Jones Road, but otherwise has no ownership in or control over Jones Road.

## **Item 5: Fees and Compensation**

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Jones Road will be compensated in the form of management fees, performance fees, carried interest and other fees.

The fees applicable to each Client are set forth in detail in the corresponding Offering Documents for the Jones Road Funds, or for any SMAs an Investment Management Agreement; a brief summary of such fees is provided below.

*It is important that Clients refer to the respective Offering Documents and other governing documents (including, any Investment Management Agreement) for a complete understanding of fees and other forms of compensation. The information contained herein is a summary only and is qualified in its entirety by such materials.*

### ***Management Fees***

Jones Road is paid an investment management fee (“**Management Fee**”) based upon the terms of the of the applicable Offering Documents corresponding to the Fund. The Management Fee is normally deducted from the assets of such Clients on the first day of each calendar quarter, and is paid in advance based upon the Fund’s net asset value on the first day of the quarter. The Management Fee payable for any period other than a full calendar quarter will be adjusted on a *pro rata* basis according to the actual number of days in such period. Management Fee rates will typically not be more than 1.5% per annum of net asset value. The Management Fee applicable to the strategic investor described in Item 4 shall initially be based, in part, on its remaining commitment until a stipulated point in time at which the Management Fee shall be exclusively based on the net asset value. Investors that subscribe for interests in a Fund for the first closing(s) and/or above certain investment amount thresholds will obtain reduced Management Fee rates. Furthermore, investors in certain bespoke co-investment vehicles may benefit from lower Management Fee rates in those instances. Jones Road earns a Management Fee (the mechanics of which are generally consistent with the above) in connection with its SMAs and any such fee would be as set forth in the applicable Investment Management Agreement.

### ***Carried Interest or Performance Fees***

Jones Road (or an affiliate) may receive “**Carried Interest**” or “**Performance Fees**” from Clients. Carried Interest may be received in connection with distributions to underlying Fund investors provided certain agreed upon return of capital and preferred returns have been achieved. The maximum Carried Interest rates will generally equal 20% after returning 100% of investor capital contributions and exceeding the preferred return (typically, 8%). As a result, Carried Interest will not be received on a regularly scheduled basis. Investors that subscribe for interests in a Fund for the first closing(s) and/or above certain investment amount thresholds will obtain reduced Carried Interest rates. Jones Road earns a performance fee (or allocation) of an agreed percentage of a Client’s net asset value appreciation (realized as well as unrealized) in connection with any SMA. Any such Performance Fee would be as set forth in the applicable Investment Management Agreement and may be subject to applicable hurdles and/or high-water marks. Such Performance Fees are typically based on calendar year performance.

## ***Expenses***

### *Expenses Generally*

The Firm is responsible for and shall pay, or cause to be paid, all of their own ordinary administrative and overhead expenses, including, without limitation, all costs and expenses related to rent, salaries, office equipment, supplies, wages, bonuses, and other employee benefits.

Jones Road is authorized to incur and pay in the name and on behalf of a Client all expenses which they deem necessary or advisable. Jones Road seeks to allocate expenses among applicable Clients and the applicable investments of each Client in a fair and reasonable manner and in accordance with applicable internal policies.

### *Organizational Expenses*

Clients pay for certain expenses related to their organization, such as legal expenses, accounting expenses, filing expenses and fees incurred in connection with organizing and establishing the Fund and its affiliates and expenses incurred in connection with offering of interests in the Fund; *provided, however,* that if any amounts due to any placement agent are paid by the Fund, such amounts will reduce the management fee and/ or carried interest distributions and/or similar amounts, as applicable

### *Operational Expenses*

Clients generally bear all of their operational expenses, including without limitation, the following: (i) expenses related to the research, due diligence and monitoring of actual and prospective investments (whether or not consummated) and the consummation of investments, including, without limitation, the following: third-party investment sourcing fees; fees and expenses related to obtaining research and market data; due diligence expenses including, without limitation, consulting and appraisal fees; travel expenses; brokerage, prime brokerage and futures commission merchant fees, commissions and expenses; expenses relating to reorganizations, restructurings and workouts; expenses relating to short sales; clearing and settlement charges; custodial fees and expenses; bank service fees; interest expenses and fees related to financings or refinancings; fees and expenses of proxy research and voting services; and fees and expenses of third-party professionals, including, without limitation, consultants, investment bankers, attorneys and accountants; (ii) reorganizational and certain operational expenses of affiliated entities necessary for operation of a Fund; and (iii) fees and expenses relating to information technology hardware, software or other technology (including, without limitation, costs of software licensing, implementation, data management and recovery services and custom development) used to research investments, evaluate and manage risk, facilitate valuations, facilitate accounting functions, facilitate compliance with the rules of any self-regulatory organization or applicable law (including, without limitation, reporting obligations), facilitate and manage the order execution of securities, such as front office Bloomberg terminals and order management systems; fees and expenses of third-party risk management products, models and services; third-party administrative fees and expenses (including the fees and expenses of any “shadow” administrator or provider of similar services); fees and expenses of third-party professionals, including, without limitation, consultants, valuation service providers, attorneys and accountants; the costs of any litigation or investigation involving activities of the Client; third-party audit and tax preparation expenses; insurance expenses, including, without limitation, premiums for cybersecurity insurance and liability insurance covering Jones Road and its affiliates; fees and expenses of any Client advisory board or committee; costs of preparing and distributing reports and notices; taxes; fees and expenses related to compliance with the rules of any self-regulatory organization or applicable law in connection with the activities of the Client, including, without limitation, any governmental, regulatory, licensing, filing or registration fees or taxes (including, without limitation, fees and expenses incurred in connection with the preparation and filing of Form PF, Section

13 filings, Section 16 filings and other similar regulatory filings); and any fees and expenses of any paying agents, legal representatives or distribution agents or similar incurred due to regulatory or legal requirements applicable to either a particular investor or a particular country in which interests were offered; extraordinary expenses, including, without limitation, the following: indemnification expenses; fees and expenses incurred in connection with any tax audit by any tax authority, including, without limitation, any related administrative settlement and judicial review; and fees and expenses incurred in connection with the reorganization, dissolution, winding-up or termination of a Fund or related entities.

The Fund(s) do not have a pre-determined limit on the applicable ordinary or extraordinary operating expenses. The Fund's actual annual operating expenses are disclosed in the Fund's year-end audited financial statements, which are provided to each investor.

The SMA(s) may have a pre-determined limit on certain types of expenses and any such arrangement with respect to operational and other expenses would be set forth in the applicable Investment Management Agreement.

To the extent that expenses to be borne by the Client are paid by the Firm or its affiliates, the Client will reimburse the Firm or its affiliates for such expenses, subject to the above. Jones Road may waive any such reimbursement with respect to any Client expenses. Any waiver by us for reimbursement of any Client expenses shall not serve as a waiver of reimbursement for any future Client expenses to be paid by us or our affiliates.

Neither the Firm nor its employees accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

## **Item 6: Performance-Based Fees and Side-By-Side Management**

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Performance-based fees and allocations are described in the Offering Documents or Investment Management Agreement for the relevant Client and have been described generally in the preceding section, Item 5 – Fees and Compensation.

We and our affiliates are entitled to performance-based compensation from each of the Funds and based upon the terms of any Investment Management Agreement with SMAs. As a result, certain conflicts of interest may arise if we and/or our affiliates accept performance-based fees from some Clients, but not from other Clients or at times arise because the performance-based compensation calculated for some Clients is greater than the performance-based compensation charged to other Clients. As of the date of this filing, all of our Clients are subject to performance-based compensation fees.

Performance-based compensation arrangements at times creates an incentive for us to recommend investments which may be riskier or more speculative than those which we would recommend under a different arrangement. Jones Road will review the allocation of investment opportunities across Clients in such cases where a conflict may arise and follow the Firm's policies and procedures regarding the allocation of investment opportunities.

## **Item 7: Types of Clients**

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Currently, our Clients are the Funds and an SMA, as described above. We may in the future provide investment advice to additional SMAs or Funds for institutional and high net worth investors.

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

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The descriptions set forth in this Brochure of specific advisory services that we offer to Clients, and investment strategies pursued, and investments made by us on behalf of our Clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each Client's investment objectives and guidelines.

The current investment strategy is to seek to opportunistically invest in credit and other special situations that may arise in the traditional investment areas of corporate credit, equities, capital and business structures and events, structured credit, government credit, credit derivatives, hard assets and other financial instruments.

The investment strategy may include (without limitation and in no particular order) investments with respect to financial instruments and assets in the liquid and illiquid space (i) that have partially or fully lost sponsorship from their intended buyer base, (ii) whose form wholly or partially may conceal the potential value of their underlying assets from market participants, (iii) where the potential gain is a potentially large multiple of the amount that can be lost, (iv) with embedded documentation nonuniformities, (v) that counterparties may trade based on inadequate models that may not accurately reflect their risk profile and (vi) that counterparties are investing in or divesting from for what we believe are non-economic reasons.

Further investment strategies may involve investments made on the basis of (i) the outcome of legal processes (including bankruptcies and litigation) and regulatory processes, (ii) credit curve, basis and capital structure arbitrage strategies, (iii) transforming a financial instrument or asset into a more marketable form (including by securitization, other form of financing or through liquidation of an existing securitization or other legal structure) and (iv) corporate restructuring and recapitalization processes (including equity spin-outs, levered equity investments, post-reorganization equity listings, holding company-related transactions, the utilization or distribution of corporate financial assets (including cash), activist investor-led situations and entity liquidations).

Such investments may involve taking long or short positions in a wide variety of financial instruments and other assets including bonds, notes, loans, preferred equity, equities, credit facilities (including wholly or partially undrawn credit facilities), other forms of borrowed money, contingent capital, trade or vendor claims, residential and commercial mortgage-backed securities, collateralized loan obligations, collateralized debt obligations, asset-backed securities, other structured obligations, single name and index credit default swaps, options thereon, and other credit derivatives, including individually negotiated credit derivatives, participations and total return swaps thereon, and other types of real and personal property including equipment, real estate, land, mineral rights, litigation rights, insurance, and intellectual property. Investments may be made directly or indirectly.

The investment strategy involves taking on varying degrees of market exposure and includes investments in the securities or loans of issuers who may be in financial stress or distress or have filed for bankruptcy protection. At times, the Firm may proactively engage directly or indirectly with obligors to restructure debt obligations. In addition, the Firm may seek to have the Client participate in financings of debtors for whom the traditional financing markets may be unavailable or impractical. Obligors may be domiciled in and property may be located in the United States or overseas. Instruments may be denominated in U.S. dollars, U.K. pounds sterling, European Union euros and other foreign currencies. In pursuit of the investment strategy, Jones Road seeks to protect against permanent capital impairment.



The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved.

The following risk factors listed below are not all inclusive, additional language regarding risk factors can be found in the applicable Fund's Offering Documents or as otherwise disclosed to a Client in connection with an SMA.

### ***Risks Relating to Management***

#### *Limited Operating History*

The Firm is a newly formed entity and does not have a significant operating history upon which prospective investors can evaluate their anticipated performance. The investment professionals of the Firm have been using investment strategies similar to some of the investment strategies utilized by the Firm in other private investment funds for several years. However, such other private investment funds were managed by a multi strategy firm that did not focus its investments specifically in credit special situations and similar investment areas. There can be no assurance that the Firm will achieve results comparable to those that the investment professionals have achieved in the past.

#### *Retention and Motivation of Employees*

The success of the Client accounts is dependent upon the talents and efforts of highly skilled individuals employed by the Firm and the Firm's ability to identify and willingness to provide acceptable compensation to attract, retain and motivate talented investment professionals and other employees. There can be no assurance that the Firm's investment professionals will continue to be associated with Jones Road throughout the life of any Client investment program, and the failure to attract or retain such investment professionals could have a material adverse effect on the Client investments. Competition in the financial services industry for qualified employees is intense and there is no guarantee that, if lost, the talents of the Firm's investment professionals could be replaced.

#### *Investment and Due Diligence Process*

Before making investments, the Firm will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, the Firm may be required to evaluate important and complex business, financial, tax, accounting and legal issues. When conducting due diligence and making an assessment regarding an investment, the Firm will rely on the resources reasonably available to it, which in some circumstances, whether or not known to the Firm at the time, may not be sufficient, accurate, complete or reliable. Due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment.

#### *Increased Regulatory Oversight*

Increased regulation and regulatory oversight of private investment funds and their managers may impose administrative burdens on the Firm, including responding to examinations and other regulatory inquiries and implementing policies and procedures. Such administrative burdens may divert the Firm's time, attention and resources from portfolio management activities to responding to inquiries, examinations and enforcement actions (or threats thereof). Regulatory inquiries often are confidential in nature, may involve a review of an individual's or a firm's activities or may involve studies of the industry or industry practices, as well as the practices of a particular institution.

## ***Risk Relating to Operations and Investment Activities***

### *Systems and Operational Risks Generally*

Clients rely heavily and on a daily basis on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain financial instruments, to monitor its portfolio and capital, and to generate risk management and other reports that are critical to oversight of their activities. Failures in the systems employed by the Firm, prime brokers, the administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Disruptions in operations may cause the Client to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage.

### *Cybersecurity Risk*

As part of its business, the Firm processes, stores and transmits large amounts of electronic information, including information relating to the transactions of its Clients. The Firm has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network connected services provided by third parties to the Firm may be susceptible to compromise, leading to a breach of the Firm's network. The Firm's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats.

The loss or improper access, use or disclosure of the Firm's or a Client's proprietary information may cause the Firm or the Client to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage.

### *Valuation of Assets and Liabilities*

A Client's assets and liabilities are valued in accordance with the Valuation Policy and Procedures. The valuation of any asset or liability involves inherent uncertainty. The value of a financial instrument determined in accordance with the Valuation Policy and Procedures may differ materially from the value that could have been realized in an actual sale or transfer for a variety of reasons, including the timing of the transaction and liquidity in the market. Uncertainties as to the valuation of portfolio positions could have an impact on the net asset value of the Client account.

### *Counterparty Risk*

The Firm has established relationships to obtain financing, derivative intermediation and prime brokerage services that permit Clients to trade in any variety of markets or asset classes over time. However, there can be no assurance that the Firm or Client will be able to establish new relationships or maintain existing relationships. An inability to establish or maintain such relationships could limit the Client's trading activities, create losses, preclude the Client from engaging in certain transactions or prevent the Client from trading at optimal rates and terms.

The Clients may effect transactions in the "over-the-counter" or "OTC" derivatives markets. The stability and liquidity of OTC derivatives transactions depends in large part on the creditworthiness of the parties to the transactions. In the OTC markets, the Client enters into a contract directly with dealer counterparties which may expose the Client to the risk that a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. Delays in settlement may also result from disputes over the terms of the contract (whether or not bona fide). In addition, the Client may have a concentrated risk in a particular counterparty, which may mean that if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if the Client had entered into contracts with multiple counterparties.

Certain OTC derivative contracts require that the Client post collateral. Collateral that a Client posts to its counterparties that is not segregated with a third-party custodian may not have the benefit of customer-protected "segregation" of such funds. In the event that a counterparty were to become insolvent, the Client may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return.

#### *Competition; Availability of Investments*

Certain markets in which the Firm may invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that the Firm will be able to identify or successfully pursue attractive investment opportunities in such environments.

#### *Volatility Risk*

The investment strategies may involve the purchase and sale of relatively volatile financial instruments and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such financial instruments and/or markets can adversely affect the value of investments held by the Client.

#### *Credit Ratings*

In general, the credit rating assigned by a nationally recognized rating agency to a financial instrument represents such rating agency's opinion of the safety of the principal and interest payments of the rated instrument based on available information. Such ratings are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of such financial instruments. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. Further, credit ratings may change over time due to various factors, including changes in the creditworthiness of the issuer and/or changes in the rating agency's analytics and processes. It is possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events and, as a result, outstanding ratings may not reflect the issuer's current credit standing. The Client may incur losses if it makes investments based on credit ratings that subsequently change in a way not favorable to the Client's investment objective.

#### *Co-Investments with Third Parties*

Clients may co-invest with third parties through joint ventures or other entities. Third-party involvement with an investment may negatively impact the returns of such investment if, for example, the third-party co-venturer has financial difficulties, has economic or business interests or goals that are inconsistent with those of the Client or is in a position to take (or block) action in a manner contrary to the Client's investment objective. In circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to participants in the investments.

### *Commodity Interest Trading Limit*

The Firm currently operates the Funds and the SMA subject to the CFTC Rule 4.13(a)(3) *de minimis* exemption (the “**4.13(a)(3) Exemption**”). While the 4.13(a)(3) Exemption provides relief from certain CFTC reporting and recordkeeping requirements, it generally requires the Fund and SMA to, among other things, have *de minimis* levels of commodity interest trading. Accordingly, the Fund and SMA will operate with significant restrictions upon its trading of the instruments that are restricted under the 4.13(a)(3) Exemption, such as commodity futures, security futures options thereon and certain swaps.

### *Litigation Risk*

Some of the tactics that the Firm may use involve litigation. Clients could be a party to lawsuits either initiated by it, or by a company in which the Client invests, other shareholders of such company, or U.S. federal, state and non-U.S. governmental bodies. There can be no assurance that any such litigation, once begun, would be resolved in favor of the Client. Any such litigation could be prolonged and expensive. In addition, it is by no means unusual for participants in reorganizations to use the threat of, as well as actual, litigation as a negotiating technique.

### *Currency Exchange Exposure*

The Firm may invest in financial instruments denominated in currencies other than the U.S. dollar. The Client may or may not seek to hedge its non-U.S. currency exposure by entering into currency hedging transactions. There can be no guarantee that financial instruments suitable for hedging currency or market shifts will be available at the time when the Client wishes to use them, or that hedging techniques employed by the Firm will be effective.

### ***Risks Relating to Investment Strategies***

#### *Risk of Loss*

No guarantee or representation is made that the Firm’s investment strategies will be successful. Investment results may vary substantially over time.

No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past investment results of investments otherwise made by the investment professionals of the Firm are not necessarily indicative of their future performance.

#### *Short Selling*

The success of the Firm’s short selling investment strategy depends upon the Firm’s ability to identify and sell short financial instruments that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying financial instrument could theoretically increase without limit, thus increasing the cost to the Client of buying those financial instruments to cover the short position.

#### *Capital Structure Arbitrage*

The success of the Firm’s capital structure arbitrage strategy depends upon the Firm’s ability to identify and exploit the relationships between movements in different securities within an issuer’s capital structure (including, bank debt, convertible and non-convertible senior and subordinated debt, and preferred and common stock). Identification and exploitation of these opportunities involve

uncertainty. There can be no assurance that the Firm will be able to locate investment opportunities or to correctly exploit price discrepancies.

#### *Long-Term*

The success of the Firm's long-term investment strategy depends upon the Firm's ability to identify and purchase financial instruments that are undervalued and hold such investments so as to maximize value on a long-term basis. In pursuing any long-term strategy, a Client may forego value in the short-term or temporary investments in order to be able to avail itself of additional and/or longer-term opportunities in the future.

#### *Risks of Investments in Physical Assets*

The Firm may make investments that are collateralized by hard assets such as rail cars, commercial airplanes, marine vessels, other types of equipment and related assets. These investments are subject to risks that include, among others, destruction, loss, terrorist attacks, industry-specific regulation (e.g., pollution control regulation), operating failures and labor relations. Prices of physical assets are affected by factors such as global supply and demand, investors' expectations with respect to the rate of inflation, currency exchange rates, interest rates, investment and trading activities of hedge funds and commodity funds, and global or regional political, economic or financial events and situations. Markets can be volatile at times, and there may be sharp fluctuations in prices even during periods of rising prices.

#### *Relative Value*

The success of the Firm's relative value investment strategy depends upon the Firm's ability to identify and exploit perceived inefficiencies in the pricing of financial instruments, financial products, or markets. Identification and exploitation of such inefficiencies involve uncertainty. There can be no assurance that the Firm will be able to locate investment opportunities or to exploit pricing inefficiencies in the securities markets.

#### *Event-Driven*

The success of the Firm's event-driven investment strategy depends upon the Firm's ability to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the effect foreseen, losses can result.

#### *Activist Investing*

The success of any activist investment strategy depends upon, among other things: (i) the Firm's ability to properly identify portfolio companies whose securities prices can be improved through corporate and/or strategic action; (ii) the ability to acquire sufficient securities of such portfolio companies at a sufficiently attractive price; (iii) the ability to avoid triggering anti-takeover and regulatory obstacles while aggregating its position; (iv) the willingness of the management of such portfolio companies and other security holders to respond positively to the Firm's proposals; and (v) favorable movements in the market price of any such portfolio company's securities in response to any actions taken by such portfolio company. There can be no assurance that any of the foregoing will occur.

#### *Short-Term Market Considerations*

The Firm's trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading-related expenses.

## *Leverage and Borrowing*

### *Leverage for Investment Purposes*

The use of leverage will allow the Client to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of the Client's portfolio. The effect of the use of leverage by the Client in a market that moves adversely to its investments could result in substantial losses to the Client, which would be greater than if the portfolio were not leveraged.

### *Collateral*

The instruments and borrowings utilized to leverage investments may be collateralized by all or a portion of the portfolio. Accordingly, the portfolio may pledge its financial instruments in order to borrow or otherwise obtain leverage for investment or other purposes. Should the financial instruments pledged to brokers to secure the margin accounts decline in value, the Client could be subject to a "margin call", pursuant to which the Client must either deposit additional funds or financial instruments with the broker or suffer mandatory liquidation of the pledged financial instruments to compensate for the decline in value.

### *Costs*

Borrowings will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on the portfolio.

## *Diversification and Concentration*

The Firm may select investments that are concentrated in a limited number or types of financial instruments. In addition, the Client's portfolio may become significantly concentrated in financial instruments related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose the Client to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such financial instruments.

## *Hedging Transactions*

The Firm may utilize financial instruments for risk management purposes in order to: (i) protect against possible changes in the market value of the investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect unrealized gains in the value of its investment portfolio; (iii) facilitate the sale of any financial instruments; (iv) enhance or preserve returns, spreads or gains on any financial instrument in the portfolio; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any financial instruments; (vii) protect against any increase in the price of any financial instruments the Client anticipates purchasing at a later date; or (viii) act for any other reason that the Firm deems appropriate. The Firm may be unable to anticipate the occurrence of a particular risk and, therefore, may be unable to attempt to hedge against it. Moreover, the portfolio will always be exposed to certain risks that cannot be hedged.

## ***Risks Relating to Methods of Analysis***

### ***Fundamental Analysis***

Certain trading decisions made by the Firm may be based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. To the extent that any such data are inaccurate or that other market participants have developed, based on such data, trading strategies similar to the Firm's trading strategies, the Firm may not be able to realize its investment goals. In addition, fundamental market information is subject to interpretation. To the extent that the Firm misinterprets the meaning of certain data, Clients may incur losses.

### ***Financial Projections Related to Portfolio Investments***

The Firm will generally make investment decisions and establish the capital structure of companies, and/or the terms of financing for a company, on the basis of financial projections, including projections specific for such companies. There can be no assurance that financial or economic models used to determine investment decisions will be correct, accurate or appropriately reflect subsequent developments or all the other factors that could cause actual results to differ from such models or projections. Projected operating results will often be based on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a material adverse impact on the reliability of such projections.

## ***Risks Relating to Market Conditions Generally***

### ***Potential Interest Rate Increases***

The United States is experiencing historically low interest rate levels. Recently, short term and long-term interest rates have decreased significantly. The uncertainty of the U.S. and global economy and changes in U.S. government policy increase the risk that interest rates will remain volatile in the future. Sustained future interest rate volatility may cause the value of the fixed income securities held by a Client to fluctuate significantly, which may negatively impact investment performance.

### ***Catastrophe Risks***

Clients may be subject to the risk of loss arising from direct or indirect exposure to various catastrophic events, including the following: hurricanes, earthquakes and other natural disasters; terrorism; and public health crises, including the occurrence of a contagious disease. To the extent that any such event occurs and has a material effect on global financial markets or specific markets in which Clients participate (or has a material effect on locations in which the Firm operates) the risks of loss can be substantial and could have a material adverse effect on Clients and the investors' investments therein.

### ***Coronavirus Risks***

In December 2019, a novel strain of coronavirus (known as COVID-19) surfaced in Wuhan, China, which has resulted in the temporary closure of many corporate offices, retail stores, and manufacturing facilities across China and South Korea, among other affected countries. These closures have caused the disruption of manufacturing supply chains and local and global economies, the duration of which remains uncertain. As of March 2020, COVID-19 has spread across the world, which may result in additional market disruptions. The extent to which COVID-19 may negatively affect the operations of the Firm and the performance of Clients is difficult to predict. Any potential impact on such operations

and performance will depend to a large extent on future developments and new information that may emerge regarding the duration and severity of COVID-19 and the actions taken by authorities and other entities to contain COVID-19 or treat its impact. These potential impacts, while uncertain, could adversely affect the performance of Clients.

### ***Risks Relating to Specific Investments***

We do not recommend a particular type of investment instrument to our Clients, but rather, we recommend and invest in multiple investment instruments. Given the broad discretion we have in managing our Client's investments, any one or more of the risks listed in the following section may be incurred by our Clients.

However, because it may be useful in understanding our investment program, set forth below is a non-exclusive list of certain risks related to securities and other instruments that may be utilized within our Clients' portfolios:

#### *Debt Securities*

Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

#### *Market Making by Dealers*

The value of fixed-income investments will be affected by general fixed income market conditions, such as the volatility and liquidity of the fixed income market, which are affected by the ability of dealers to "make a market" in fixed-income investments. In recent years, the market for bonds has significantly increased while dealer inventories have significantly decreased, relative to market size. This reduction in dealer inventories may be attributable to regulatory changes, such as capital requirements, and is expected to continue. As dealers' inventories decrease, so does their ability to make a market (and, therefore, create liquidity) in the fixed income market. Especially during periods of rising interest rates, this could result in greater volatility and illiquidity in the fixed income market, which could impair profitability or result in losses.

#### *Interest Rate Risk*

Changes in interest rates can affect the value of investments in fixed-income instruments. Increases in interest rates may cause the value of debt investments to decline. Clients may experience increased interest rate risk to the extent it invests, if at all, in lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

#### *Prepayment Risk*

The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their



obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment.

#### *Future Funding Obligations*

Clients may from time to time incur funding obligations that may arise in the future in connection with an investment. If the Client is unable to pay its obligations when due, it could face significant penalties that could materially adversely affect its returns.

#### *Zero-Coupon and Deferred Interest Bonds*

Zero-coupon bonds and deferred interest bonds are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

#### *High-Yield*

Bonds or other fixed-income securities that are "higher yielding" (including non-investment grade) debt securities are generally not exchange-traded and, as a result, these securities trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing.

The Firm may invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuer's obligations. Such investments may include debt obligations that have a heightened probability of being in

covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically, such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted security for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

#### *Corporate Debt*

Bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, the Firm may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (*e.g.*, the principal owed in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, the Client may experience substantial losses.

#### *Mezzanine Debt*

Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of the Firm to influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments. In the event of the insolvency of a portfolio company or similar event, the debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

#### *Stressed Debt*

Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of stressed and distressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

#### *Non-Performing Nature of Debt*

Certain debt instruments may be non-performing or 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 debt instruments.

#### *Troubled Origination*

When financial institutions or other entities that are insolvent or in serious financial difficulty originate debt, the standards by which such instruments were originated, the

recourse to the selling institution, or the standards by which such instruments are being serviced or operated may be adversely affected.

#### *Sovereign Debt*

Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued ("**Sovereign Debt**"), including securities that the Firm believes are likely to be included in restructurings of the external debt obligations of the issuer in question, (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer's (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z) level of international currency reserves, which may affect the amount of non-U.S. exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

#### *Equitable Subordination*

Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) 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, (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 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 (a remedy called "equitable subordination"). If the Client engages in such conduct, the Client may be subject to claims from creditors of an obligor that debt held should be equitably subordinated.

#### *Loan Investments*

The Firm's success in the area of loan investing will depend, in part, on its ability to obtain loans on advantageous terms. In purchasing loans, the Firm will compete with a broad spectrum of investors and institutions. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

#### *Leveraged Loans*

"Leveraged loans" are loans made to companies with a below investment-grade rating from any nationally recognized rating agency. There is no assurance that the Firm will correctly evaluate the value of the assets collateralizing such loans or the prospects for distribution on or repayment of such loans. The Client may lose its entire investment or may be required to accept cash, property or securities with a value less than the original investment and/or may be required to accept payment over an extended period of time.

#### *Hung Loans*

The term "hung loan" commonly refers to a loan that has been made (or has been committed to be made), and the lender is not able to syndicate the loan on the originally anticipated terms. Hung loans are illiquid and lack readily ascertainable market values;

there is no assurance that the price to be paid for hung loans by a Client will reflect a discounted price that should allow the Client to achieve a positive return on such loans or avoid losses. Since the price of the loans to be purchased is expected to continue to be significantly impacted by, in addition to the specific circumstances relating to each loan (*e.g.*, in the case of a loan relating to a leveraged buyout ("**LBO**"), the financial condition of the target), global and macroeconomic conditions (*e.g.*, monetary policy, changes to currency exchange rates, governmental intervention or changes to existing laws, international geo-political events, etc.) as well as other systemic factors, it is possible that loans purchased by the Firm will suffer significant impairments in value as a result of events not predicted. The Firm may also face difficulties in disposing of or leveraging such loans, or in doing so without incurring losses. The markets in which hung loans are purchased and sold have been volatile and are likely to continue to be volatile in the future.

#### *Bank Loans*

Bank loans are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the holder to directly enforce its rights with respect to participations. Successful claims by third parties arising from these and other risks will be borne by the Client.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue.

#### *Second Lien Loans*

The Firm may invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances.

#### *Bridge Loans*

It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including LBOs, where they serve as advisers to the purchaser. Bridge loans are frequently made because, for timing or market reasons, longer-term financing is not available at the time the funds are needed, which is often at the time of the closing of an acquisition. If bridge loans are not repaid (or cannot be disposed of on favorable terms) on the dates projected by the Firm, there may be an adverse effect upon the ability of the Firm to manage the assets of the Client in accordance with its models and projections or an adverse effect upon performance.

#### *Debtor-in-Possession ("**DIP**") Loans*

Loans to companies that have filed for protection under Chapter 11 of the Bankruptcy Code, as amended, are most often asset-based, revolving working-capital facilities put

into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a U.S. federal bankruptcy court order, it is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.

#### *Fraud Associated with Loans*

Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability to perfect or effectuate a lien on the collateral securing the loan. The Firm will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

#### *Distressed Obligations*

The obligations of issuers in weak financial condition, experiencing poor operating results, 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) 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 risk that it frequently may be difficult to obtain information as to the true condition of such issuers. Such 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, recharacterize debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such 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 such companies.

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 financial instrument the value of which will be less than the purchase price of the financial instrument in respect to which such distribution was made.

#### *Bankruptcy Claims*

Firm investments include debt and equity of financially distressed companies. In the event that the issuer files for bankruptcy protection, the Client will likely be unable to sell its claims without realizing a significant loss and may be unable to recover current interest on such claims during the course of the bankruptcy case. The markets in U.S. bankruptcy claims are generally not regulated by U.S. federal securities laws or the SEC. To the extent debt investment is unsecured (*i.e.*, has no collateral securing repayment), such claims may have a lower priority than secured claims (which have first recourse to the collateral securing such claim). In addition, the debt of an issuer in bankruptcy may be adversely

affected by an erosion of the issuer's business and overall value. Accordingly, there can be no guarantee that a debtor will be able to satisfy all of its liabilities or that the Client will be able to recover the entire amount of its bankruptcy claim.

Reorganizations can be contentious and adversarial, and it is by no means unusual for participants to use the threat of litigation and to engage in litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Client.

#### *Real Estate Debt Investments*

Real estate debt investments present additional risks not necessarily present in other types of investments. In the case of certain real estate debt investments, the Firm's investment strategy may be based, in part, upon the premise that real estate loans and/or participation interests therein that are otherwise performing are from time to time available for purchase by the Client at "discounted" rates or at "undervalued" prices. Purchasing debt instruments and/or other interests at what may appear to be "undervalued" or "discounted" levels is no guarantee that these investments will generate attractive risk-adjusted returns or will not be subject to further reductions in value. No assurance can be given that real estate loans and/or participation interests can be acquired at favorable prices or that the market for such interests will continue to improve since this depends, in part, upon events and factors outside the control of the Firm.

#### *Preferred Stock*

Investments in preferred stock involve risks related to priority in the event of bankruptcy, insolvency or liquidation of the issuing company and how dividends are declared. Preferred stock ranks junior to debt securities in an issuer's capital structure and, accordingly, is subordinate to all debt in bankruptcy. Preferred stock generally has a preference as to dividends. Such dividends are generally paid 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, in the event 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.

#### *Municipal Securities*

Various factors may adversely affect the value and yield of municipal securities. These factors include political or legislative changes and uncertainties related to the tax status of municipal securities or the rights of investors in these securities. To the extent that the Firm invests heavily in a particular state's municipal securities, the Clients will be more vulnerable to factors affecting that state. Factors affecting the project or facility, such as local business or economic conditions, could have a significant impact on the project's ability to make payments of principal and interest on these securities.

#### *ABS and MBS Generally*

The investment characteristics of asset-backed securities ("**ABS**") and mortgage-backed securities ("**MBS**") differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time.

### *ABS and MBS Subordinated Securities*

Investments in subordinated MBS and ABS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of MBS and ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the attributes typically associated with equity investments.

#### *Commercial MBS*

Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

#### *ABS*

ABS are not secured by an interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of U.S. federal and state consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

#### *RMBS*

Holders of residential mortgage-backed securities ("**RMBS**") bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one to four family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so called "jumbo" mortgage loans, having original principal balances that are higher than Fannie Mae and Freddie Mac loan balance limitations. As a result, such portfolio of RMBS may experience increased losses.

### *Structured Notes*

Structured notes, variable rate mortgage-backed and asset-backed securities each have rates of interest that vary based on a designated floating rate formula or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. The movements in specific indices or interest rates may be difficult or impossible to hedge.

### *Collateralized Debt Obligations*

There are a variety of different types of collateralized debt obligations ("**CDOs**"), including CDOs collateralized by trust preferred securities and asset-backed securities and CDOs collateralized by corporate loans and debt securities called collateralized loan obligations ("**CLOs**"). CDOs may issue several types of securities, including CDO and CLO equity, multi-sector CDO equity, trust preferred CDO equity and CLO debt. CDOs are subject to credit, liquidity and interest rate risks, which are each discussed in greater detail above. The CDO equity may be unrated or non-investment grade. As a holder of CDO equity will have limited remedies available upon the default of the CDO.

The value of CDOs generally fluctuates with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("**CDO Collateral**"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished. CDO Collateral may consist of high-yield debt securities, loans, asset-backed securities and other securities, which often are rated below investment grade (or of equivalent credit quality).

### *Subordination of CDO Debt and CDO Equity*

Subordinate CDO debt generally is fully subordinated to the related CDO senior tranches. CDO equity generally is fully subordinated to any related CDO debt and is not secured by any collateral. Distributions to holders of CDO equity will generally be made solely from distributions on the assets of the CDO issuer after all other payments have been made pursuant to the priority of payments of such CDO. To the extent that any losses are incurred by a CDO in respect of its related CDO Collateral, such losses will be borne first by the holders of the related CDO equity, next by the holders of any related subordinated CDO debt and finally by the holders of the related CDO senior tranches.



### *Control by Senior CDO Debt*

In a typical CDO, the most senior CDO debt (the "**Controlling Class**") will control many rights under the CDO indenture and therefore, holders of subordinate CDO debt and CDO equity will have limited rights in connection with an event of default or distributions thereunder. Remedies pursued by the holders of the Controlling Class upon an event of default could be adverse to the interests of the holders of subordinate CDO debt and CDO equity. If an event of default has occurred and is continuing, the holders of CDO equity will not have any creditors' rights against the CDO issuer and will not have the right to determine the remedies to be exercised under the CDO indenture. There is no guarantee that any funds will remain to make distributions to the holders of subordinate CDO debt and CDO equity following any liquidation of the CDO assets and the application of the proceeds from the CDO assets to pay senior classes of CDO debt and the fees, expenses, and other liabilities payable by the CDO issuer. The Controlling Class may also have consent rights in respect of amendments and CDO manager removal rights in connection with certain events.

### *Illiquid Securities and Long-Term Investments, Investments Longer than Term*

Certain financial instruments may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such financial instruments. Valuation of such financial instruments may be difficult or uncertain because there may be limited information available about the issuers of such financial instruments. The market prices, if any, for such financial instruments tend to be volatile and may not be readily ascertainable, and the Firm 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. The sale of restricted and illiquid financial instruments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of financial instruments eligible for trading on national securities exchanges or in the over-the-counter markets. As a result, the Client may be required to hold such financial instruments despite adverse price movements. Even those markets which the Firm expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

Due to the illiquid nature of such investments, as well as the uncertainties of the reorganization and active management process or litigation related to investments, the Firm 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.

In light of the foregoing, it is likely that no significant return from the disposition of investments will occur for a substantial period of time from the date of investment. In the case of privately negotiated transactions, the Firm generally will not be able to sell its securities or instruments publicly unless the issuer has gone public and such sale is registered under applicable securities laws or unless an exemption from such registration requirements is available. In addition, in some cases, it is expected that the Client will be prohibited by contract or other limitation from selling certain securities or instruments for a period of time (*e.g.*, due to limitations on sale arising from contractual lockups, obligations to receive consent to transfer or assign interests, or rights of first offer), and as a result may not be permitted to sell a portfolio investment at a time it might otherwise desire to do so. Further, disposition of such investments may require a lengthy time period or result in distributions in kind to investors. Thus, the range of disposal strategies available may be further limited.

### *Special Purpose Acquisition Companies*

A special purpose acquisition company (a “SPAC”) is a publicly traded company formed for the purpose of raising capital through an initial public offering to fund the acquisition, through a merger, capital stock exchange, asset acquisition or other similar business combination, of one or more undervalued operating businesses. Following the acquisition of a target company, a SPAC typically would exercise control over the management of such target company in an effort to increase the value of such target company. Capital raised through the initial public offering of securities of a SPAC is typically placed into a trust until the target company is acquired or a predetermined period of time elapses. Investors in a SPAC would receive a return on their investment in the event that a target company is acquired and such target company's value increased. In the event that a SPAC is unable to locate and acquire target companies by the deadline, the SPAC would be forced to liquidate its assets, which may result in losses due to the expenses and liabilities of the SPAC. Investors in a SPAC are subject to the risk that, among other things, (i) such SPAC may not be able to locate or acquire target companies by the deadline, (ii) assets in the trust may be subject to third-party claims against such SPAC, which may reduce the per share liquidation price received by the investors in the SPAC, (iii) such SPAC may be exempt from the rules promulgated by the SEC to protect investors in "blank check" companies, such as Rule 419 promulgated under the Securities Act, so that investors in such SPAC may not be afforded the benefits or protections of those rules, (iv) such SPAC may only be able to complete one business combination, which may cause it to be solely dependent on a single business, (v) the value of any target company may decrease following its acquisition by such SPAC, (vi) the value of the funds invested and held in the trust decline, (vii) the inability to redeem due to the failure to hold the securities in the SPAC on the record date or the failure to vote against the acquisition and (viii) if the SPAC is unable to consummate a business combination, public stockholders will be forced to wait until the deadline before liquidating distributions are made. In addition, most SPACs are illiquid and have a concentrated shareholder base that tends to be comprised of hedge funds (at least at inception). The Firm may invest in a SPAC that, at the time of investment, has not selected or approached any prospective target businesses with respect to a business combination. In such circumstances, there may be limited basis for the Firm to evaluate the possible merits or risks of such SPAC's investment in any particular target business. To the extent that a SPAC completes a business combination, it may be affected by numerous risks inherent in the business operations of the acquired company or companies. For these and additional reasons, investments in SPACs are speculative and involve a high degree of risk.

### *Undervalued Securities*

The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from investments may not adequately compensate for the business and financial risks assumed.

### *Unlisted Securities*

Unlisted securities may involve higher risks than listed securities. Because of the absence of any trading market for unlisted securities, it may take longer to liquidate, or it may not be possible to liquidate, positions in unlisted securities than would be the case for publicly traded securities. Companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

## *Derivative Instruments*

Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, credit risk, legal risk and operations risk. The regulatory and tax environment for derivative instruments is evolving, and changes in the regulation or taxation of such instruments may have a material adverse effect on the Client.

### *Regulation in the Derivatives Industry*

There are many rules related to derivatives that may negatively impact a Client, such as requirements related to recordkeeping, reporting, portfolio reconciliation, central clearing, minimum margin for uncleared over-the-counter ("**OTC**") instruments and mandatory trading on electronic facilities, and other transaction-level obligations. Parties that act as dealers in swaps, are also subject to extensive business conduct standards, additional "know your counterparty" obligations, documentation standards and capital requirements. All of these requirements add costs to the legal, operational and compliance obligations of the Firm and Clients, and increase the amount of time that the Firm spends on non-investment-related activities. Requirements such as these also raise the costs of entering into derivative transactions, and these increased costs will likely be passed on to the Client.

These rules are operationally and technologically burdensome for the Firm and Client. These compliance obligations require employee training and use of technology, and there are operational risks borne by the Client in implementing procedures to comply with many of these additional obligations.

These regulations may also result in a Client forgoing the use of certain trading counterparties (such as broker-dealers and futures commission merchants ("**FCMs**")), as the use of other parties may be more efficient for a Client from a regulatory perspective. However, this could limit a Client's trading activities, create losses, preclude a Client from engaging in certain transactions or prevent a Client from trading at optimal rates and terms.

Many of these requirements were implemented pursuant to the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"), the EU Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as the European Market Infrastructure Regulation, or "**EMIR**") and similar regulations globally. In the United States, the Dodd-Frank Act divides the regulatory responsibility for derivatives between the SEC and the CFTC, a distinction that does not exist in any other jurisdiction. The SEC has regulatory authority over "security-based swaps" and the CFTC has regulatory authority over "swaps". EMIR is being implemented in phases through the adoption of delegated acts by the European Commission. As a result of the SEC and CFTC bifurcation and the different pace at which the SEC, the CFTC, the European Commission and other international regulators have promulgated necessary regulations, different transactions are subject to different levels of regulation. Though many rules and regulations have been finalized, there are others, particularly SEC regulations with respect to security-based swaps and EMIR regulations, that are still in the proposal stage or are expected to be introduced in the future.

### *Call and Put Options*

The Firm may incur risks associated with the sale and purchase of call options and put options. Under a conventional cash-settled option, the purchaser of the option pays a premium in exchange for the right to receive upon exercise of the option (i) in the case of a call option, the excess, if any, of the reference price or value of the underlier (as determined pursuant to the terms of the option) above the option's strike price or (ii) in the case of a put option, the excess, if any, of the option's strike price above the reference price or value of the underlier (as so determined). Under a conventional physically-settled option structure, the purchaser of a call option has the right to purchase a specified quantity of the underlier at the strike price, and the purchaser of a put option has the right to sell a specified quantity of the underlier at the strike price.

### *Index or Index Options*

The value of an index or index option fluctuates with changes in the market values of the assets included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular asset, whether the Client will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the assets generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular assets.

### *Index Futures*

The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, participants may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts is subject to the Firm's ability to correctly predict movements in the direction of the market.

### *Credit Default Swaps*

Credit default swaps can be used to implement the Firm's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Firm may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the Client to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Firm may also buy credit default protection with respect to a referenced entity if, in the Firm's judgment, there is a high likelihood of credit deterioration. In such instance, the Client will pay a premium regardless of whether there is a credit event.

### *Futures Contracts*

The value of futures contracts depends upon the price of the financial instruments, such as commodities, underlying them. The prices of futures contracts are highly volatile, and

price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the positions trade or of its clearinghouses or counterparties.

#### *Non-U.S. Futures Transactions*

Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally "linked" to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign exchange or the laws of the foreign country. Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, the Client may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures.

#### *Forward Contracts*

A Client may enter into forward contracts and options thereon, including non-deliverable forwards, which are currently not traded through clearinghouses, although this is expected to change. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to less than that which the Firm would otherwise recommend, to the possible detriment of the Client.

#### *Contracts for Differences*

Contracts for differences ("**CFDs**") are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument's value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. As is the case with trading any financial instrument, there is the risk of loss associated with trading a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying security will require the posting of additional margin. CFDs also carry counterparty risk, *i.e.*, the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced.

Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase financial risk.

#### *Exotic Options*

Exotic options are typically, but not always, traded over-the-counter. OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. A Client may incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option.

#### *Repurchase and Reverse Repurchase Agreements*

In a reverse repurchase transaction, the Client "buys" securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Client, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements involves certain risks. For example, if the seller of securities under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the buyer will seek to dispose of such securities, which action could involve costs or delays. It is possible, in a bankruptcy or liquidation scenario, that the Client may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, the Client may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

#### *Equity Securities Generally*

The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, a Client may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Firm's expectations or if equity markets generally move in a single direction and the Firm has not hedged against such a general move. A Client also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

#### *Convertible Securities*

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 a Client is called for redemption, the Client 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 the Client's ability to achieve its investment objective.

## Item 9: Disciplinary Information

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There are no legal or disciplinary events that are material to a Client's or prospective Client's evaluation of our advisory business or the integrity of our management.

## Item 10: Other Financial Industry Activities and Affiliations

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Neither we nor our management persons are registered as broker-dealers, and neither of us has any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer, respectively.

Jones Road meets the definition of a commodity pool operator and, depending on the amount of commodity interests that we trade, we may be required to register with the CFTC and become a member of the National Futures Association. However, we currently claim an exemption from registration pursuant to CFTC Rule 4.13(a)(3) based on our trading a *de minimis* level of commodity interests.

We do not recommend or select other investment advisers for our Clients.

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

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### *Code of Ethics*

Jones Road has adopted a “**Code of Ethics**” that establishes the high standard of conduct that we expect of our employees and procedures regarding our employees' personal trading of securities. Our employees are required to certify their adherence to the terms set forth in the Code of Ethics upon commencement of employment and annually thereafter. Employees also are required to provide quarterly certifications of compliance with certain Code of Ethics provisions (as described below).

The foundation of our Code of Ethics is based upon the following underlying fiduciary principles:

- Employees must at all times place the interests of the Clients and investors first;
- Employees must ensure that all personal securities transactions are conducted consistent with the Code of Ethics' person trading policy (described below); and
- Employees should not take inappropriate advantage of their position at the Firm.

### *Personal Securities Trading*

The Firm's personal trading policy is designed to prevent potential legal, business or ethical conflicts from arising between the personal trading activities of Employees and the interests of our Clients; to minimize the risk of unlawful or conflicting trading in any account where employees have an interest; and to guard against the misuse of confidential information or material, nonpublic information. All personal trading must avoid any conflict or potential conflict with Jones Road or any Client. This policy includes requirements for publicly traded securities.

Employees are expected to devote their workday to serving the Clients and the interests of Jones Road and must avoid personal trading on a scale or of a kind that would distract from daily work responsibilities. Accordingly, Jones Road discourages personal trading.

Employees are precluded from engaging in personal trading with respect to single name securities and positions (other than the exit of legacy positions that may be permitted by the CCO with prior approval). The purchase and sale of broad based ETFs (e.g., SPY), broad based listed closed end funds and municipal bonds (and related derivatives) are permitted subject to the prior approval of the CCO. Jones Road defines broad based ETFs as those which track an index or subset of an index.

Investing in the following is also permitted:

- Direct obligations of the U.S. government (governmental/supranational bonds);
- Shares issued by money market funds;
- 529 account plans;
- Shares issued by open-end funds (mutual funds) or foreign equivalent open-ended unit trusts (and similar instruments); and
- Units of a unit investment trust; if the unit investment trust is invested exclusively in one or more open-end funds;

Employees must ensure that they comply with any trading restrictions.

We will provide a copy of our Code of Ethics to our Clients and Investors, or any prospective client or investor, upon request.

### ***Participation or Interest in Client Transactions***

#### *Cross Trades*

The Firm may determine that it would be in the best interests of our Clients, including investment funds, managed accounts, proprietary accounts and other investment vehicles (collectively, "Accounts" and, each an "Account") to transfer a financial instrument from one Account to another (each such transfer, a "Cross Trade") for a variety of reasons, including tax purposes, liquidity purposes, to rebalance the portfolios of the Accounts, or to reduce transaction costs that may arise in an open market transaction. If the Firm decides to engage in a Cross Trade, the Firm will determine that the trade is in the best interests of both of the Accounts involved and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those Accounts.

The Firm generally intends to execute Cross Trades, if at all, with the assistance of a broker-dealer that executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a cross transaction between two Clients may occur as an "internal cross", where the Firm instructs the custodian for the Accounts to book the transaction at the price determined in accordance with the Valuation Policy and Procedures. If the Firm effects an internal cross, the Firm will not receive any fee in connection with the completion of the transaction.

#### *Principal Transactions*

To the extent that Cross Trades may be viewed as principal transactions (as such term is used under the Advisers Act) due to the ownership interest in an Account by the Firm (or its affiliates), the Firm will comply with the requirements of Section 206(3) of the Advisers Act. In no event will any such transaction be entered into unless it complies with applicable law.

Neither we nor our related persons generally purchase any securities for our own accounts from, or sell any securities for our own accounts to, Clients. We have solicited and may continue to solicit qualified clients to invest in a Fund. We could be considered to have recommended an investment in the Fund as suitable for a Client as a result of our relationship with the Fund. We will inform each



Client of our relationship with a Fund prior to the Client's investment, but we do not intend to advise Clients as to the appropriateness of the investment and we will not receive any compensation for selling interests in a Fund (except to the extent that we receive our Management Fee and Performance-based Compensation from Clients or investors).

We disclose these, and other potential conflicts of interest, to investors in the applicable Fund's Offering Documents or Investment Management Agreement. Offering Documents are delivered to investors prior to their investment and investors are given the opportunity to ask questions and seek answers regarding, among other things, potential conflicts involving us, our affiliates, or the executive officers of the foregoing.

### ***Certain Employee Certifications***

All Employees are given a copy of the Compliance Manual and Code of Ethics and are required to attest in writing that they have read and understand their contents. Periodic updates to these documents will be circulated to all Employees.

All Employees will attest to various compliance policies and matters on no less than a quarterly basis, including with respect to the following matters:

- Personal Trading;
- Personal securities holdings;
- Compliance Breaches and Investor Complaints;
- Anti-money laundering;
- Political Contributions; and
- Gifts and Entertainment.

### ***Conflicts of Interest Created by Contemporaneous Trading***

Though the Firm seeks to act in the best interests of its Clients (and has adopted various policies and procedures to that end), at times, conflicts of interest arise from the fact that the Firm and its affiliates provide investment management services to multiple Clients and Accounts.

There are Accounts that have investment objectives, programs, strategies and positions that are similar. Additionally, Accounts may have investment objectives, programs, strategies and positions that conflict, or may compete with or have interests adverse. Such conflicts could affect the prices and availability of financial instruments in which the Clients invests. Even if an Account has investment objectives, programs or strategies that are similar, at times, the Firm may give advice or take action with respect to the investments held by, and transactions of, the Accounts that may differ from the advice given or the timing or nature of any action taken with respect to the investments held by, and transactions of, another Account for a variety of reasons, including, without limitation, differences between the investment strategy, financing terms, regulatory treatment and tax treatment of the Accounts. As a result, the Accounts may have substantially different portfolios and investment returns. Conflicts of interest may also arise when the Firm makes decisions on behalf of one Client with respect to matters where the interests of the Firm or one or more Accounts differs.

### ***Allocations of Trades and Investment Opportunities***

It will be the policy of the Firm to allocate investment opportunities to Clients on a fair and equitable basis, to the extent practical and in accordance with the applicable investment strategies, over a period of time. Investment opportunities will generally be allocated among those Clients for which participation in the respective opportunity is considered appropriate, taking into account, among other

considerations: (i) whether the risk-return profile of the proposed investment is consistent with an Client's objectives; (ii) the potential for the proposed investment to create an imbalance in an Client's portfolio; (iii) the liquidity requirements of an Client; (iv) the tax considerations related to the proposed investment; (v) regulatory restrictions that would or could limit a Client's ability to participate in a proposed investment; and (vi) the need to re-size risk in a Client's portfolio. Such considerations may result in the non-*pro rata* allocation of an investment opportunity among Clients.

Although sales of investments held by multiple Clients generally are expected to be sold by the Clients on a *pari passu* basis (as held), the Firm may sell investments from various Clients on a non-*pro rata* basis based on a wide variety of factors, including those described above in respect of allocations of investment opportunities. Accordingly, it is possible that one Client may be selling an investment, while another Client is retaining or investing more capital in the same investment.

The Firm will have no obligation to purchase or sell a financial instrument for, enter into a transaction on behalf of, or provide an investment opportunity to, one Client solely because the Firm purchases or sells the same financial instrument for, enters into a transaction on behalf of, or provides an opportunity to, another Client if, in its reasonable opinion, such financial instrument, transaction or investment opportunity does not appear to be suitable, practicable or desirable for each Client.

In particular, when a Client is ramping up its investment or trading strategies, it may receive larger allocations of certain financial instruments than other Clients in order to obtain its desired risk and portfolio size.

## **Item 12: Brokerage Practices**

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Jones Road is authorized to determine the broker-dealer to be used for executing securities transactions for its Clients. In selecting broker-dealers to execute transactions, we do not need to solicit competitive bids and do not have an obligation to seek the lowest available commission cost. The Funds' securities and other assets are held in securities accounts at our prime brokers that are "Qualified Custodians" as defined in the Advisers Act.

### **Business Management & Operating Committee**

The Firm has established a Business Management & Operating Committee. The Business Management and Operating Committee is responsible for overseeing the Firm's business team and functions, including Financial Control & Accounting, Investor Relations, Compliance, Operations and Office Management/Human Resources.

This committee also provides supervision and monitoring of the Firm's trading policies.

These matters are reviewed on no less frequent than a quarterly basis.

The following matters (among others) are covered:

- Trading Authorities;
- Approved broker list;
- Evaluation performance of broker dealers with reference to various factors, including, among others, commission rates, execution services, reliability and coverage;
- Review of broker allocations;

- Review and approve any soft dollar arrangements;
- Review trade errors and determine any remedial actions;
- Review trade allocation and aggregation of client trades;
- Review securities regulations, or changes or amendments thereto, related to trading;
- Review other internal controls related to trading activities;
- Review any principal or cross trades;
- Review of restricted list;
- Review potential conflicts of interests; and
- Review records related to proxy and other voting matters.

### ***Best Execution***

In selecting brokers and negotiating commission rates, we will take into account the financial stability and reputation of brokerage firms, and the research, brokerage, or other services provided by such brokers.

To help oversee the Firm's best execution policies, the Firm's Business Management & Operating Committee is responsible for developing, evaluating and changing, when necessary, the Firm's order execution practices in selecting and using its brokers. This committee assesses the performance of the broker-dealers and the commission levels paid by the funds.

In selecting an appropriate broker-dealer to effect a Client trade, we seek to obtain "Best Execution," meaning generally the execution of a securities transaction for a Client in such a manner that a Client's total costs or proceeds in the transaction are most favorable under the circumstances. Accordingly, in seeking Best Execution, we will take into consideration the price of a security offered by the broker-dealer, as well as a broker-dealers' full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to us, brokerage and research services provided to us (for example, research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services.

### ***Soft Dollars***

The Firm may use "Soft Dollars". In such cases, Soft Dollar credits, generated by a Client's trading activities, would be used to purchase brokerage and research services or products that would otherwise have been a Clients' expense. We intend to keep any such arrangements within the parameters of the safe harbor of Section 28(e) of the Securities Exchange Act of 1934.

Neither Jones Road nor any related person receives client referrals from any broker-dealer or third party. However, subject to Best Execution, we may consider, among other things, capital introduction and marketing assistance with respect to investors in the Funds in selecting or recommending broker-dealers for the Funds.

### ***Order Aggregation***

If Jones Road determines that the purchase or sale of a security is appropriate with regard to multiple Clients, the Firm may, but is not obligated to, purchase or sell such a security on behalf of such clients with an aggregated order, for the purpose of reducing transaction costs, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Client will receive the average price, with transaction costs generally allocated pro rata based on the size of each Client's participation in the order (or allocation in the event of a partial fill) as determined by the Firm. In the event of a partial fill, allocations may be modified on a basis that Jones Road deems to be appropriate, including, for example, in order to avoid odd lots or de minimis allocations. When orders are not aggregated, trades generally will be processed in the order that they are placed with the broker or counterparty selected by the Firm. As a result, certain trades in the same security for one Client (including a Client in which the Firm and its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another Client, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.

### **Item 13: Review of Accounts**

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The Firm has a duty to ensure that its investment recommendations are suitable and that the portfolios are managed in conformity with the relevant investment objectives and guidelines as well as any applicable restrictions, whether required under the terms of the Client governing documents and applicable law and/or regulation. The Firm's portfolio managers and analysts are responsible for understanding the investment objectives and policies of each Client. Generally, client accounts are reviewed on a regular basis by the appropriate Firm professionals which includes the relevant portfolio managers and other investment professionals, as well as the Chief Financial Officer. These reviews are designed to, among other things, monitor and analyse transactions, positions, investment levels and portfolio risk. The investment professionals meet regularly to review position and portfolio matters.

### ***Account Reporting***

We will distribute annual audited financial statements with respect to the previous fiscal year to all investors within 120 days of the relevant Fund's fiscal year end. We may also distribute other interim reports to investors.

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

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Jones Road does not currently utilize any third-party solicitors. The Firm formerly had a placement agreement with a third party which terminated effective December 2019, certain provisions of which survive the termination. In the future, Jones Road may enter into written arrangements with third parties to act as solicitors or marketers. As applicable, all such compensation would be fully disclosed to each Client consistent with applicable law. All such referral activities would be conducted in accordance with Rule 206(4)-3 under the Advisers Act, as well as relevant SEC guidance.

Jones Road does not anticipate receiving any economic benefit, from any person who is not a Client, for providing investment advice or other services to its Clients. Neither we nor any of our related persons, directly or indirectly, compensate any person who is not a supervised person for client referrals.

## **Item 15: Custody**

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We comply with the Advisers Act's Custody Rule (for those Clients for which we will be deemed to have custody) by meeting the conditions of the pooled vehicle annual audit approach. Upon completion of the relevant Fund's annual audit by an independent auditor that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board (PCAOB), either we, or one of our service providers (e.g., administrator for the Fund(s)) under the Firm's direction, will distribute the Fund's audited financials to investors within 120 days of the Fund's fiscal year end.

## **Item 16: Investment Discretion**

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We have full discretionary authority over our Clients' accounts including authority to make decisions with respect to which securities to be bought and sold, as well as the amount and price of those securities.

Jones Road or an affiliate of Jones Road has entered into an investment management agreement, or similar agreement, with each Client, pursuant to which Jones Road or an affiliate of Jones Road was granted discretionary trading authority.

## **Item 17: Voting Client Securities**

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In compliance with the Advisers Act's Proxy Voting Rule, we have adopted proxy voting policies and procedures. The general policy is to vote all proxy proposals, amendments, consents or resolutions (collectively, "**Proxies**") in a prudent and diligent manner that will serve the applicable client's best interests and is in line with each Client's investment objectives.

We may abstain from voting (which generally requires submission of the ballot) or decide not to vote if the Firm determines that abstaining or not voting is in the best interests of our Clients.

We may take into account all relevant factors, as determined by us in our discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

Generally, Clients may not direct our vote in a particular solicitation.

Conflicts of interest may arise between the interests of the Clients on the one hand and us or our affiliates on the other hand. If we determine that we may have, or be perceived to have, a conflict of interest when voting Proxies, we will vote in accordance with our Proxy voting policies and procedures. Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

**Item 18: Financial Information**

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We are not required to include a balance sheet for our most recent fiscal year, are not aware of any financial condition reasonably likely to impair our ability to meet contractual commitments to clients, and have not been the subject of a bankruptcy petition at any time during the past ten years.