



# Oak Hill Advisors, L.P. Part 2A of Form ADV The Brochure

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This brochure provides information about the qualifications and business practices of Oak Hill Advisors, L.P. and/or, as the context requires, its affiliates (together, the “**Registrant**”). If you have any questions about the contents of this brochure, please contact us at 212-326-1500 or at [cg@oakhilladvisors.com](mailto:cg@oakhilladvisors.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “**SEC**”) or by any state securities authority. Additional information about the Registrant is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). An investment adviser’s registration with the SEC does not imply a certain level of skill or training.

## Material Changes

The Registrant's most recent update to Part 2A of Form ADV was made on March 29, 2019. Since that time, the Registrant's business activities have not changed materially. The Registrant periodically reviews its policies, procedures and methodologies, and may amend them to reasonably ensure they remain compliant with applicable laws, rules and regulations and are fair and equitable for all Clients. Should the Registrant make a material amendment to any of its policies, procedures and/or methodologies, it will amend its Form ADV, as appropriate.

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. There are direct and indirect economic effects developing for various industries and individual companies throughout the world. The Registrant will continue to monitor the impact COVID-19 has on the business activities of the Registrant, its Clients and on the portfolio companies of our Clients.

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## **Advisory Business**

The Registrant is a leading independent investment firm specializing in leveraged loans, high yield bonds, private credit, distressed investments and collateralized loan obligations (“CLOs”). The Registrant may also engage in other investment products, such as equity securities (including common or preferred stock, closed-end funds, exchange-traded funds and similar securities and warrants), real assets (including aircraft, automobiles, shipping, real estate, and/or related assets), structured finance, mortgage securities investments and interest rate and currency hedging. The majority of investments are made in private securities and obligations, but the Registrant does also invest in publicly traded securities. The Registrant makes control and non-control investments and takes both long and short positions on behalf of its clients. The Registrant’s investment activities are concentrated primarily in the U.S. and Europe. With approximately \$37.9 billion of capital under management on a discretionary basis as of January 1, 2020, the Registrant manages various private funds, including pooled funds and CLOs, and single investor mandates (each, a “Client” and collectively, “Clients”).

Investment advisory services provided to each Client are tailored to such Client’s specific investment strategy, objectives, limitations and restrictions, as set forth in each investment advisory agreement, private placement memorandum, offering circular and other Client constituent document, as applicable. In certain cases, Clients impose restrictions on investing in certain securities or types of securities.

The Registrant (through a predecessor entity) was founded in 1991 and is owned by Oak Hill Advisors GenPar, L.P., as the general partner, and WSI OHA (H), LLC, WSI OHA (S), LLC and FW Credit Partners, L.P., as the limited partners. The Registrant maintains its principal place of business in New York City and has additional offices in Fort Worth, Texas; San Francisco, California; London, England; Sydney, Australia; Melbourne, Australia; Hong Kong, China; and Luxembourg.

## **Fees and Compensation**

### **Fees and Compensation**

The relationship between the Registrant and its Clients is governed by investment advisory agreements and other Client constituent documents, as applicable. Fees for advisory services are negotiable. With respect to separately managed account Clients, either the Registrant or the Client may generally terminate the applicable investment advisory agreement, without penalty, upon 30-90 days’ prior written notice to the other party. With respect to single investor and/or commingled fund Clients, depending on the structure and terms of a particular fund, investors therein may have monthly, quarterly, annual or more limited withdrawal rights (and in some cases may have no withdrawal rights) and may otherwise be limited in their ability to dissolve such fund and receive a return of their

capital. Certain separately managed account and/or fund Clients may be subject to termination fees if the account or fund, as applicable, is terminated and/or dissolved (or an investor in a fund withdraws) prior to a defined period, as negotiated by the Registrant and the applicable Client. Clients may be charged management fees monthly or quarterly, in arrears or in advance, and the management fees may be deducted or invoiced, as determined at the commencement of the Client advisory relationship. Generally, management fees are payable quarterly in arrears. Pursuant to the terms of investment advisory agreements and other Client constituent documents, as applicable, Clients who pay management fees in advance may be refunded a prorated portion of the management fee if the advisory relationship was terminated prior to the end of the relevant billing period. Depending on the type of Client and the nature of the management services to be provided by the Registrant, management fees are generally based on capital commitments, unreturned capital contributions, cost basis of investments (including expenses related thereto), or the net asset value of a Client. Where the management fee is based on the cost basis of investments, the Registrant will face a conflict in making its determinations as to (1) the expenses that are related to or attributable to a given investment and (2) whether to write off any investment. The attribution of additional expenses will increase the cost basis of investments, and writing off an investment will decrease the cost basis. Each of the investment advisory agreements and other Client constituent documents, as applicable, generally provide for a management fee of up to 2%. In addition, certain investment advisory agreements and other Client constituent documents, as applicable, provide for an incentive fee, carried interest or incentive allocation (collectively, “**performance-based fees**”) of up to 25% of all net income and gains and losses derived from portfolio investments. Certain strategic investors may receive a portion of the performance-based fees, and/or receive a reduction, waiver, or adjustment of management fees and/or performance-based fees. Certain investment advisory agreements and other Client constituent documents, as applicable, provide for a preferred rate of return or soft or hard hurdle rate of return to Clients (i) on a fixed basis of 5-12%, (ii) on a floating basis of the London Interbank Offered Rate (“**LIBOR**”) plus up to 500 bps, or (iii) based on the performance of designated indices (in certain cases, with catch up to the Registrant or affiliate, as applicable), and some provide for a “high water mark” (which is also referred to at times as a “loss recovery account”). All compensation arrangements in which the Registrant receives a fee based on a share of capital gains or capital appreciation will comply with the requirements of Rule 205-3 of the U.S. Investment Advisers Act of 1940 (as amended, the “**Advisers Act**”). The allocable portion of any vested directors’ fees and awards, transaction fees and/or similar fees in connection with Client transactions will be retained by the Registrant and/or its affiliates, provided that such amounts (net of certain expenses and hypothetical taxes) may be credited on a *pro rata* basis to certain relevant Clients against any management fees otherwise payable by such Clients, in each case, subject to the relevant investment advisory agreements and other Client constituent documents, as applicable. Amounts not credited will be retained by the Registrant. As permitted by applicable law and regulation, the Registrant and related persons can be expected to receive certain benefits resulting from their activities on behalf of the Clients, such as travel loyalty points. Such benefits will inure exclusively to the benefit of the

Registrant and related persons (and not the Clients) even though the cost of the underlying service may be paid by the Clients.

### Expenses

Clients may bear any and all fees, costs and expenses attributable to the activities of the Clients or the Registrant incurred for the benefit of the Clients, in accordance with the terms of the investment advisory agreements and other Client constituent documents, as applicable.

Fees, costs and expenses attributable to the activities of the Clients or the Registrant and/or its affiliates on behalf of the Clients include, but are not limited to, those related to the evaluation, discovery, investigation, development, acquisition, monitoring, management, holding, enhancement, restructuring or disposition of investments (whether or not consummated, and including any portion of such expenses that is not borne by co-investors). These include, but are not limited to, the fees, costs and expenses (including disbursements) related to: loan fees, private placement fees, brokerage and sales fees, commissions, appraisal fees, research fees and bid/ask and/or dealer spreads; any affiliated or unaffiliated service providers (including fixed fees (such as retainers) and/or performance-based fees), including any agent in respect of any private credit investment; underlying investment vehicles; interest and clearing and settlement charges, commitment fees, taxes including transfer taxes and premiums, and underwriting commissions and discounts; short sales; market data (including, without limitation, in connection with any multimedia, analytical, database, news or third-party research or information services and market data providers (including research or information services subject to the Markets in Financial Instruments Directive (Directive 2014/65/EU) (“**MiFID II**”)) and any computer hardware and connectivity hardware (e.g., terminals and telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data); legal, accounting, audit, investment banking, and third-party industry and due diligence experts (including, without limitation, for credit and risk analytics, collateral review and loss mitigation); any finders, senior advisors, originators, consultants (including sourcing consultants, operating consultants, research consultants, industry expert consultants and/or subject matter consultants) and other persons acting in a similar capacity (in each case, whether or not such persons are engaged by the Registrant and/or its affiliates in respect of a Client in a dedicated or exclusive capacity), including fixed fees (such as retainers) and/or performance-based fees, in each case, whether in the form of cash, options, warrants, stock or otherwise, and including expenses of any of the foregoing persons, including communications (including internet access fees), travel (including international cellular charges), meals, lodging and other similar expenses; oversight servicers and servicers (including fixed and/or performance-based fees); filings; communications (including internet access fees associated with the Registrant’s investment professionals), travel (including international cellular charges), meals, lodging as well as late meal and car services; organizing, maintaining and operating entities controlled by the Registrant and/or its affiliates that facilitates a Client’s investments (including rent, salaries and ancillary

costs of such entities, costs and expenses of service providers of such entities, and expenses related to the corporate governance of such entities); interest and related expenses and custodial, depositary, trustee, record keeping and other administration services; operations and reconciliation; hedging and the incurrence of leverage and indebtedness, including borrowings, dollar rolls, reverse purchase agreements, credit facilities (including credit facilities secured by a Client's unfunded capital commitments), securitizations, margin financing and derivatives and swaps, including any principal or interest on borrowings and indebtedness (including, without limitation, in connection with lines of credit, loan commitments, letters of credit, and in guaranteeing the obligations of any issuers or their affiliates); formation, organization, operation, winding up, dissolution and termination of any special purpose entity (including, for the avoidance of doubt, all equivalent fees, costs and expenses to those set forth herein that are borne by Clients), alternative investment vehicle and/or co-investment vehicle; and all other fees, costs and expenses (including amounts payable to affiliates of the Registrant) related to the sourcing, evaluation, discovery, investigation, development, acquisition, monitoring, pricing, underwriting, servicing and/or disposition of potential or actual investments (whether or not consummated). In addition, Clients will bear any fees (including fixed and performance fees) payable to joint venture partners or third-party managers (in each case, without offset to any fixed and performance fees paid by Clients to the Registrant and/or its affiliates).

Other fees, costs and expenses attributable to the activities of the Clients or the Registrant and/or its affiliates on behalf of the Clients include, but are not limited to, any and all fees, costs and expenses (including disbursements) relating to: (i) implementing or maintaining third-party or proprietary software tools, programs or other technology for the benefit of the Clients (including, without limitation, any and all costs and expenses of any investment, books and records, portfolio compliance and reporting systems such as Wall Street Office, Everest (Black Mountain), Hazeltree, Electra, Omgeo, Trinity and similar systems and services, including, without limitation, consultant, software licensing, data management and recovery services fees and tools, programs, subscriptions or other systems providing market data (including expenses incurred in connection with any multimedia, analytical, database, news or third-party research or information services (including research or information services subject to MiFID II)) and any computer hardware and connectivity hardware (e.g., terminals and telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data), analytical, database, news or third-party research or information services to Clients); (ii) attorneys, auditors, accountants, tax professionals (in each case, including secondees and temporary personnel or consultants that may be engaged on short- or long-term arrangements as deemed appropriate by the Registrant) and administrators relating to Client matters (including costs and expenses of in-house professionals and related administrative personnel, including personnel of the Registrant responsible for legal, tax, and accounting (including portfolio reconciliation, portfolio compliance and reporting) services or otherwise for implementing, maintaining and supervising the procedures relating to the books and records of the Clients, inclusive of their allocated administrative and overhead costs, fees, liabilities and expenses (“**Overhead**”), which includes all costs, fees and expenses on account of rent, utilities,

insurance, salaries, wages, payroll taxes, bonuses, employee benefits, furnishings, telecommunications and certain information services and certain office expenses, including office supplies and equipment and other similar expenses); (iii) Client financial statements, reports, notices, tax returns and Schedule K-1s (or similar schedules) (including any audits relating thereto), including the costs of creating, printing translating (as applicable) and distributing such financial statements, notices, reports, tax returns and Schedule K-1s (or similar schedules) and any postage costs and expenses relating to Client matters; (iv) taxes and other governmental charges (including transfer taxes and premiums and entity-level taxes and fees associated with corporate licensing); (v) the maintenance of registered offices, corporate licensing and similar expenses; (vi) insurance services, premiums or expenses, including (a) errors, omissions, fidelity, crime, cybersecurity, general partner liability, directors' and officers' liability and similar coverage for any person acting on behalf of the Registrant or its affiliates and (b) any Client investment, including casualty insurance, real estate insurance, title insurance, shipping-related insurance, insurance on loans, property insurance and similar coverage; (vii) compliance with any law or regulation (including ongoing compliance, filing, recordkeeping and reporting obligations, related software, and fees, costs and expenses incurred in implementing or maintaining such software and any fees and expenses related to the retention of, and services provided by, any service provider or agent engaged by Registrant and/or its affiliate in connection with such compliance) or in connection with any litigation or governmental review, audit (including any tax audit), inquiry, investigation, proceeding or tax contest, including the amount of any judgments, settlements or fines paid in connection therewith; (viii) distributions to the Clients (or investors therein); (ix) meetings with some or all of the Registrant's Clients (including any annual meeting of the Registrant that one or more of the Registrant's Clients are invited to attend), including, without limitation, travel, meal, and lodging expenses of the Registrant and its representatives, and ancillary activities related thereto; (x) out-of-pocket expenses incurred by members of any board or advisory committee (including, without limitation, travel, meal, and lodging expenses); (xi) the formation, marketing, maintenance, dissolution, winding up or termination of Client accounts or entities, entities controlled by the Registrant and/or its affiliates (including, without limitation, out-of-pocket legal, accounting, tax, regulatory, filing, capital raising, printing, translation, distribution, travel, lodging and meals); (xii) any amendments, modifications, revisions or restatements to the investment advisory agreements and other Client constituent documents, as applicable, including, without limitation, related entities (including the constituent documents of any special purpose entity, alternative investment vehicle and/or co-investment vehicle, as applicable (including any fees, costs and expenses incurred in connection with establishing co-investment vehicles in connection with proposed investments that are not consummated, to the extent not borne by such vehicles)); (xiii) the negotiation and preparation of, and compliance with, side letters and most favored nations processes (as applicable); (xiv) valuation (including, without limitation and as applicable, any and all fees, costs and expenses associated with advisors, accountants, independent pricing services and third-party valuation consultants); (xv) communications (including internet access fees), lodging, travel, cellular phone and meals (including late cars and meals) and other similar costs, fees and expenses (including for the personnel of

the Registrant and its affiliates and third parties); (xvi) and any postage costs and expenses related to Client matters; and (xvii) Client indemnification obligations and management fee obligations.

The Registrant allocates fees, costs and expenses among Clients and the Registrant in a fair and equitable manner consistent with its Expense Allocation Policy, as determined by the Registrant in good faith. Fees, costs and expenses will generally be allocated to applicable Clients and related entities on a *pro rata* basis based on a measure of assets under management, or otherwise as deemed fair and equitable by the Registrant in good faith. Certain Clients and related entities pay fees, costs and expenses on a fixed amount basis. Expenses allocated to a Client will indirectly be borne by all underlying investors and, if applicable, underlying feeder funds, that are invested, directly or via a feeder fund, in such Client at the time such expenses are paid by the Client, regardless of whether the expenses relate to any one investor or a subset of investors, unless otherwise determined by the Registrant in good faith.

With respect to fees, costs and expenses associated with investment activity, such expenses generally will be allocated to the Clients and related entities that are invested in or are eligible to invest in the relevant asset type or strategy, as determined by the Registrant based on the relevant Client's investment advisory agreements and other constituent documents, as applicable.

With respect to fees, costs and expenses associated with a consummated investment, such expenses generally will be allocated to the Clients and related entities that participated in the investment, *pro rata* based on each Client's participation in such investment.

With respect to expenses associated with an unconsummated investment, such expenses generally will be allocated to the Clients and related entities that were provisionally allocated for the prospective (but unconsummated) investment or, if no provisional allocation was made, then to the Clients and related entities eligible to invest in such asset type or strategy. The eligibility of a Client to participate in a specific asset type or strategy will be determined by the Registrant in good faith on the basis of the Client's investment advisory agreement and other constituent documents, as applicable, and/or the Client's past investments, even if such asset type or strategy is not enumerated in the relevant documents. A Client who has previously invested in (or consented to invest in, even if no investment was made) an asset type or strategy (even on a one-off basis pursuant to the Client's consent) will be considered eligible for such asset type or strategy for purposes of allocating to such Client the fees, costs and expenses associated with such asset type or strategy, including for unconsummated investments, until such Client affirmatively informs the Registrant that it no longer wishes to be considered for investments of such asset type or strategy. Each applicable Client and related entity will be allocated its *pro rata* share of any fees, costs and expenses associated with an unconsummated investment based on a pro forma investment allocation using the Registrant's Trade Allocation Schedule, which utilizes cash availability and maximum issuer size. See *Brokerage*



*Practices – Bunched Orders and Trade Allocation* herein for more information on the Registrant's Trade Allocation Policies and Procedures.

The Registrant pays all or a portion of the allocated amount of expenses for those Clients with whom the Registrant has contractually agreed not to charge or for whom it waives such expenses (in each case, in whole or in part, based on the contractual agreement with the applicable Client). The Registrant and/or its affiliates have waived, reduced and/or calculated differently the fees, costs and expenses for the Registrant's employees and certain strategic investors and friends and family of the Registrant who invest in certain Client funds. Clients and investors in Client funds may additionally negotiate variations from the Registrant's standard fees, costs and expenses. Where a Client holds an interest in an investment vehicle, the investment vehicle will generally directly pay any expenses relating to the vehicle or to its underlying investments. Such amounts will be paid out of capital contributed or transaction proceeds. The Registrant will credit to the Client the amounts of expense types that the Client would not otherwise bear pursuant to its contractual arrangement.

Co-investment vehicles will generally be allocated expenses relating to investments in which they participate, in a manner the Registrant determines is fair and equitable. In some cases, Clients and/or investors may agree to bear the portion of expenses allocable to a co-investment vehicle. If a co-investor chooses not to participate in an investment (or an investment is not ultimately consummated), and unless otherwise agreed with such co-investor, the Registrant's Client(s) participating in such investment (or who would have participated had such investment been consummated) may bear the entire amount (without allocation to any such co-investor) of any break-up fees or broken deal expenses and/or other fees, costs and expenses related to such investment.

Some services may be provided at cost by the Registrant's employees who provide legal, tax and accounting (including portfolio reconciliation, portfolio compliance and reporting) services and, in each case, their supervising persons. Some services may be provided by Group Administrative Services, LLC (*e.g.*, insurance services) or Oak Hill Capital Management, Inc. (*e.g.*, benefit plan/payroll services). These are entities that provide services to separate firms that bear or once bore the Oak Hill name (collectively, the “**Other Oak Hill Entities**”). The Other Oak Hill Entities include, among others, Oak Hill Capital Management, LLC (a private equity fund adviser) and its client funds. These Other Oak Hill Entities operate separately from the Registrant, have separate and independent general partners and managers, and make decisions on an independent basis. The Registrant believes engaging Group Administrative Services, LLC and OH Administration Corp. permits the Registrant to achieve certain economies of scale.

The Registrant does not earn a profit for the services provided by in-house legal and accounting professionals. Specifically, the Registrant charges Clients their allocable portion of the lesser of (a) actual applicable cost (including allocated portions of Overhead) of such professionals or (b) an amount not to exceed the reasonable estimated cost had the

service been performed by an outside firm of national repute, as determined in good faith by the Registrant. For in-house legal professionals and accounting professionals (that work on tax matters), the allocable cost for each Client or entity is based on weekly timesheets maintained by such professionals, reflecting a fixed total weekly number of work-hours for each professional. For in-house accounting professionals in general, each accounting professional is part of an accounting group that covers a designated list of Clients or entities based on similar strategies or account types, and such professionals maintain weekly timesheets (reflecting a fixed total weekly number of work-hours for such professional) in which such professional allocates his or her time between the Registrant and its affiliates, on the one hand, and their designated Clients or entities, on the other hand. The cost of services provided by each accounting group is generally allocated across the Clients and entities supported by such accounting group *pro rata* based on assets under management. With respect to Oak Hill Special Opportunities Fund, allocated costs of in-house legal professionals of Oak Hill Capital Management, LLC, an unaffiliated investment adviser that jointly advises such fund, are also charged to such fund. Where in-house legal and accounting professionals supervise or perform side-by-side services with third-party law firms, administrators and tax professionals, both the in-house and third-party expenses are subject to allocation to Clients.

Certain office services, which are part of Overhead, are provided by Bass Enterprises Production Co., an unaffiliated service provider partially owned by an affiliate of FW Credit Partners, L.P. Fees for these services are negotiated on an arm's-length basis.

With respect to the Registrant's brokerage practices, please refer to the *Brokerage Practices* section herein.

## **Performance-Based Fees and Side-by-Side Management**

As noted above, the Registrant and its related general partners and/or advisory affiliates charge certain Clients performance-based fees, which are fees based on a share of income from, capital gains on, or capital appreciation of, such Clients' assets. The existence of the performance-based fees creates an incentive for the Registrant to approve, and thereby cause a Client to make, more speculative investments than it would otherwise make in the absence of such performance-based fees.

Furthermore, the Registrant could be incentivized to allocate investment opportunities to Clients that pay performance-based fees on terms that are preferential to other Clients. For example, some Clients pay higher performance-based fees as compared to other Clients and some Clients pay performance-based fees periodically on realized and unrealized net gains, as compared to other Clients that pay performance-based fees on a deferred basis, as investments are realized and proceeds are distributed. In addition, some Clients have a high water mark, soft or hard hurdle and/or a preferred return, and the Registrant could be incentivized to allocate investment opportunities to Clients that are close to their respective

high water mark, soft or hard hurdle and/or preferred return, in order to begin or to continue accruing and/or receiving performance-based fees with respect to such Clients. Similarly, the Registrant could be incentivized to dedicate increased resources and/or allocate more profitable investment opportunities to Clients that pay higher management fees than other Clients. Similarly, the Registrant could be incentivized to allocate certain investment opportunities to Clients with preferential expense terms, such as accounts that pay a greater portion of the Client's expenses. For Clients with unfunded commitments and credit lines or other financing facilities (including subscription facilities), where the Registrant may have the discretion to either call capital or to draw on the credit line or other financing facilities, the Registrant could be incentivized to draw on such credit line or other financing facilities rather than calling capital, if doing so is expected to generate a higher internal rate of return (or a lower preferred return) for purposes of calculating performance-based fees.

Performance-based fees received by the Registrant and its related general partners and/or advisory affiliates are based primarily on net income and realized and unrealized gains and losses. As a result, the performance-based fees earned could be based on unrealized gains that Clients may never realize.

Notwithstanding the foregoing, the Registrant's investment allocation process does not take into account management fees, performance-based fee terms and/or expense terms when allocating investment opportunities among Clients. To mitigate these conflicts, the Registrant has implemented Trade Allocation Policies and Procedures, as described in the *Brokerage Practices* section herein, and the Registrant conducts reviews of the performance of accounts with similar investment objectives.

## **Types of Clients**

The Registrant provides investment advisory services to various private funds, including pooled funds and CLOs, and single investor mandates, in each case, for which the Registrant and certain of its affiliates serve as the general partner and/or investment adviser (or in a similar capacity). The Registrant's Clients (including investors therein) include, without limitation, pension funds, sovereign wealth funds, insurance companies, financial institutions, foundations, endowments, fund of funds, family offices and high net worth individuals. All investors in private fund Clients are required to be either "qualified purchasers" or employees who are deemed to be "knowledgeable employees" under the U.S. Investment Company Act of 1940 (as amended, the "**40 Act**"), or must otherwise be permitted to invest under applicable securities laws.

The Registrant does not have a formal minimum assets under management threshold with respect to separately managed accounts and single investor vehicles, but it may require minimum investments on a case-by-case basis. Pooled funds for which the Registrant or an affiliate serves as general partner and/or investment adviser generally impose a minimum investment requirement for admission as a limited partner, shareholder or similar

investor, although in most cases the general partner and/or the investment adviser of the applicable fund may, in its sole discretion, accept commitments of lesser amounts (subject to applicable law). Additional suitability requirements for investment in each of the private fund Clients are more fully discussed in the disclosure and subscription documents for each fund.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

### Method of Analysis and Investment Strategies

The Registrant's corporate credit investment philosophy is typically based on five tenets: (i) intensive, fundamental credit analysis; (ii) relative value analysis; (iii) focus on risk-adjusted returns; (iv) loss avoidance; and (v) active portfolio management.

- *Intensive, fundamental credit analysis* is the cornerstone of the Registrant's investment strategy and includes: (i) business, vehicle and borrower analysis, which involves a comprehensive fundamental evaluation of a company and includes historical and projected financial modeling; (ii) capital structure analysis, which evaluates the terms and structure of a company's debt and equity securities relative to the company's business risk; and (iii) valuation analysis, which considers the enterprise value of a company in both the public and private markets.

The main sources of information the Registrant uses in conducting research and diligence include, without limitation:

- Annual and quarterly company reports, prospectuses and press releases;
  - Credit agreements, indentures, shareholder agreements, offering circulars and related documents;
  - Bankruptcy and other court filings;
  - Company books and records;
  - Investment manager and trustee reports;
  - Financial publications;
  - Third party research and governmental agency reports; and
  - Corporate rating services.
- *Relative value analysis* involves identifying relative value among industries, issuers and financial instruments. This process focuses on evaluating the risks assumed by investors relative to the returns implied by asset prices. The Registrant believes that different industries possess different components of risk, which may include cyclical, technological, legal and regulatory risks. Further, the Registrant believes that different companies possess different components of risk, which may include competitive, financial and managerial risks. Finally, each instrument or layer in a company's capital structure has a different measure of risk based on collateral, subordination, covenants, liquidity, interest rate sensitivity and other considerations.

- *Focus on risk-adjusted returns* involves identifying investments that offer the maximum return for the least amount of risk, and thinking about “yield-to-event” rather than yield-to-maturity.
- *Loss avoidance* involves concentrating on issuers with stable (or improving) businesses and securities which possess strong asset (or value) coverage and structural protection (e.g., security, covenants) in the event of credit problems.
- *Active portfolio management* involves the continuous integration of credit and relative value analyses combined with opportunistic management of the portfolio. The Registrant believes that active portfolio management is an important component of its investment strategy because market conditions and companies’ credit quality continually change.

In addition, the Registrant employs a common investment process across the various sectors within the structured products market. The investment process is typically based on: (a) collateral analysis; (b) structural and documentation analysis; (c) collateral manager review; (d) scenario analysis; (e) relative value analysis; and/or (f) surveillance and portfolio management.

- *Collateral analysis* is the cornerstone of the investment process and involves an extensive analysis and deep understanding of the underlying collateral for each structured product investment. Specifically, the analysis of the collateral pool is done largely on an asset-by-asset basis. The individual assets in the collateral pool are analyzed for historical and current performance and, most importantly, the assets are evaluated for future performance. For the portfolio assets, this analysis and evaluation focuses on their (i) future expected cash flow and value, (ii) default propensity, (iii) timing of potential default and (iv) potential loss severity.
- *Structural and documentation analysis* involves analyzing the structural elements of each investment and doing an in-depth review of the key governing transaction documents. The structural review includes a capital structure analysis, which evaluates the terms and structure of a transaction’s various asset classes. The documentation review is performed by the Registrant, and in certain instances is supplemented through review by outside counsel.
- *Collateral manager review* involves analyzing the historical performance and general quality of a particular collateral manager.
- *Scenario analysis* involves projecting the future cash flows of a collateral pool and modeling how the projected returns of a particular investment tranche may vary as the projections of the underlying cash flows are modified under different scenarios. The scenarios can be varied based on asset-specific considerations as well as macro-economic factors. The scenario analysis seeks to integrate the analyses

performed on the collateral, structure, documentation, and collateral manager, so that the boundaries of risk and return can be reasonably calculated and understood, prior to making an investment decision.

- *Relative value analysis* involves identifying relative value. This process focuses on evaluating the risks assumed by investors relative to the returns implied by asset prices. This analysis also incorporates relative risk and return across the various tranches and capital structures available for investment in the structured products markets.
- *Surveillance and portfolio management* involves performing investment surveillance on each portfolio asset on a regular basis, in addition to monitoring overall portfolio risks. Generally, the performance to date of each investment is evaluated relative to projected performance at the time the investment was made. Taking into account current market pricing and expected ongoing collateral performance, future projected returns are calculated and a buy/sell/hold decision is made. This process also allows relative value decisions to be made both among investments already in the portfolio and those available for purchase in the markets. Portfolio concentration risks and macroeconomic risks are continually evaluated, and hedging strategies may be employed to mitigate certain of these risks.

The Registrant's investment team performs three primary functions: research, trading and portfolio management.

- **Research:** Research professionals are responsible for all aspects of credit and structured products analysis and due diligence, as described above. In addition, as part of the research process, research professionals may: (i) conduct diligence meetings with management, selected customers, suppliers, competitors, service providers and industry analysts; (ii) engage outside consultants and legal and accounting experts, as necessary; and (iii) prepare internal research reports and recommendations for the portfolio managers. The industry-focused research professionals regularly monitor both existing and prospective investments as well as fundamental trends in their respective industry segments.
- **Trading:** Trading professionals are responsible for managing the trading process and for providing the investment team with insight on relative value and capital markets issues. The trading professionals also generate market-oriented investment ideas for the research group.
- **Portfolio Management:** The portfolio managers approve all investment decisions and supervise the research and trading professionals. The approval process is typically based on meetings with research and trading professionals on each investment. Investment decisions are based on, among other factors, credit analysis,

relative value, diversification and/or market conditions with the objective of maximizing risk adjusted returns.

### Risk of Loss

The description contained herein is an overview of certain risks to Clients (and investors therein) relevant to the Registrant's method of analysis, investment strategies and types of securities recommended, and is not intended to be complete. Additional risks and uncertainties applicable to Clients may exist. A detailed description of applicable risk factors is set forth in Client private placement memoranda and/or other Client documents and disclosures as applicable, which the Registrant will make available to current Clients, investors and qualified prospective investors upon request. All investments involve a risk of loss and any investment strategy offered by the Registrant could lose money over the short or long term. Clients and investors should carefully consider a number of different risks including, but not limited to, the following:

#### *A. Investment Strategy Risks*

**Investment and Trading Risks.** All investments in securities and obligations risk the loss of capital, including the risk of a total loss of invested capital. The Registrant believes that its investment and research programs and techniques may moderate this risk through a careful selection of securities, obligations and other financial instruments. No guarantee or representation is made that a Client's program will be successful. Past performance is not necessarily indicative of future performance. Clients' investment programs may utilize such investment techniques as leverage, margin transactions, short sales, derivatives and other swaps (including for purposes of interest rate and/or currency hedging), options on securities and forward contracts, which practices may, in certain circumstances, increase the adverse impact to which the Clients may be subject. Clients may invest in loans, bonds or other fixed-income securities or obligations, including, without limitation, public and private non-investment grade bonds, secured loans, second lien debt, structured products, convertible securities and other financial instruments with fixed-income characteristics. Such securities and obligations will primarily be below investment grade and face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the applicable issuer's inability to timely meet interest and principal payments. The market prices of such instruments are also subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility, and the spread between the bid and ask prices of such instruments may be greater than those prevailing in other financial markets.

**Economic, Political and Market Risks.** The investments made by the Clients may involve a high degree of business and financial risk that can result in substantial losses. In particular, these risks could arise from changes in the financial condition or prospects of the entity in which the investment is made, changes in national or international economic and market conditions and changes in laws, regulations, trade barriers, exchange rates and

controls, fiscal policies, or political conditions of countries in which investments are made, including the risks of war and the effects of terrorist attacks and security operations. Changes in such aspects may result in the disruption of the global credit markets, periods of reduced liquidity, greater volatility, general widening of credit spreads and a lack of price transparency. The Registrant's investments are expected to be sensitive to the performance of the overall global economy. A negative impact on economic fundamentals and consumer and business confidence would likely increase market volatility and reduce liquidity, both of which could have a material adverse effect on Clients' performance and these or similar events may affect the ability of Clients to execute their investment strategies.

In the past decade, there have been periods of global market uncertainty and adverse financial conditions. Volatile and difficult global credit market conditions adversely affect the market values of equity, fixed-income and other financial instruments. The possibility of partial or total loss of capital will exist, and investors should not invest unless they can readily bear the consequences of such loss. Market disruptions may cause dramatic losses for the Clients and such can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk. In addition, interest rate changes may affect the value of Clients' debt instruments as well as the ability of companies or businesses in which the Clients may invest to refinance debt securities. Factors that may affect market interest rates include, without limitation, inflation, slow or stagnant economic growth or recession, unemployment, money supply, governmental monetary policies, international disorders and instability in domestic and foreign financial markets. In a changing interest rate environment, the Registrant may not be able to manage this risk effectively, and performance could be adversely affected. The Registrant will not necessarily hedge Clients' interest rate risk.

Changing political environments, regulatory restrictions and changes in government institutions and policies in and outside the United States could adversely affect Client investments. Civil unrest, ethnic conflict or regional hostilities may contribute to instability in some countries. Such instability may impede business activity and adversely affect the environment for foreign investments. Actions in the future of one or more governments could have a significant effect on the various economies, which could adversely affect market conditions, prices and yields of securities and other obligations.

**Below Investment Grade Debt Securities and Obligations.** Risks associated with investing in high yield fixed income securities and obligations (*e.g.*, leveraged loans and high yield bonds) include:

- the issuer's inability to pay interest or repay principal;
- illiquidity in the markets may make the securities and obligations difficult or impossible to sell;
- the issuer or company may repay the security or obligation prior to maturity;



- companies that issue such securities and obligations are often highly leveraged and may not have available to them more traditional methods of financing;
- such issuers and companies generally do not issue publicly traded securities, making it more difficult to hedge the risks associated with such investments; and
- information relating to companies that issue such securities and obligations may be less readily available and reliable than other companies, such as those that issue publicly traded securities, and therefore Clients are more dependent on the analytical abilities of the Registrant.

**Leveraged Loans.** The Registrant may invest on behalf of Clients in leveraged loans. Leveraged loans will generally be rated below investment grade or may also be unrated. As a result, the risks associated with leveraged loans are similar to the risks of other below investment grade fixed-income instruments. In addition to the risks for such fixed income obligations set forth above, leveraged loans, including those acquired via participations, entail other risks such as (i) the risk that the underlying borrower may experience a default and/or a bankruptcy, and the related risks thereto, (ii) environmental liabilities that may arise with respect to collateral securing the obligations and (iii) extended settlement periods. In general, the secondary trading market for leveraged loans may not be as liquid or efficient as those for certain other debt securities. To the extent a secondary market for leveraged loans exists, it may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods.

In addition, where loans are acquired via participations, additional risks apply, such as (i) limitations on the ability of the Registrant to directly enforce its rights (including set-off) versus the obligor, (ii) exposure to the creditworthiness and performance risk of the participation seller, and (iii) limitations on the ability to directly benefit from the collateral supporting the debt instrument. As a result, Clients will assume the credit risk of both the obligor and the seller selling the participation. In the event of the insolvency of such seller, the Clients may be treated as a general creditor of such seller and may not benefit from any set-off between such seller and the obligor. Under a participation, the Registrant may not be entitled to negotiate the covenants restraining the activities of the borrower under the leveraged loans that it invests in on behalf of Clients. As a result, such loans may not include certain financial covenants and may not sufficiently protect the Client's income stream.

Clients will compete with a broad spectrum of lenders, some of which may have greater financial resources than the Clients, and some of which may be willing to lend money on better terms (from a borrower's standpoint) than the Clients. Increased competition for, or a diminution in the available supply of, qualifying loans may result in lower yields on such loans, which could reduce returns to Clients. In addition, a high percentage of leveraged loans are issued as "covenant-lite." Client's investments in loans with limited covenant protections may pose a higher risk, as the borrowers of such loans are subject to fewer

covenants with respect to, among other things, other debt that such borrowers may incur. The lack of such covenants may increase the likelihood that such borrowers could default on their payments to a Client, thereby resulting in losses to such Client.

**High Yield Bonds.** The Registrant may invest on behalf of Clients in high yield bonds (*i.e.*, bonds that are rated in the sub-investment rating categories by credit rating agencies). Such securities are generally not exchange-traded and, as a result, these instruments may trade in a smaller secondary market than exchange-traded bonds. In addition, such issuers may not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. In addition to the risks for such fixed income securities set forth above, 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 higher-rated securities. Also, high yield bonds tend to be more volatile than higher-rated securities and may not be protected by financial covenants or limitations on additional indebtedness. Furthermore, companies that issue such lower-rated and/or unrated securities are often highly leveraged and may not have available to them more traditional methods of financing.

**Lower Credit Quality Investments.** There may be no restrictions on the credit quality of the investments of certain Clients. Instruments in which the Registrant may invest on behalf of certain Clients may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. Other investments may be unrated. Lower-rated and unrated instruments in which the Registrant may invest on behalf of Clients are subject to significant uncertainties or major risk exposures to adverse conditions, may be more illiquid, and are considered to be predominantly speculative. Generally, such investments offer a higher return potential than higher-rated investments, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these investments (such as subordinated securities) also tend to be more sensitive to changes in economic conditions than higher-rated instruments. Declining real estate values, in particular, will increase the risk of loss upon default, and may lead to a downgrading of the applicable investments by rating agencies. The value of such investments may also be affected by changes in the market's perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies. In general, the ratings of nationally recognized rating organizations represent the opinions of these agencies as to the quality of the investments that they rate. These ratings may be used by the Registrant as initial criteria for the selection of portfolio investments. Such ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of the investments. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

**Sovereign Debt Investments.** Clients may invest in sovereign debt instruments, which involve special risks. The governmental authority that controls the repayment of the

sovereign debt may be unwilling or unable to repay the principal and/or interest when due in accordance with the terms of such instruments due to: (i) the extent of its foreign reserves; (ii) the availability of sufficient foreign exchange on the date a payment is due; (iii) the relative size of the debt service burden to the economy as a whole; or (iv) the government debtor's policy towards the International Monetary Fund and the political constraints to which a government debtor may be subject. If an issuer of sovereign debt defaults on payments of principal and/or interest, Clients may have limited legal recourse against the issuer and/or guarantor. In certain cases, remedies must be pursued in the courts of the jurisdiction of the defaulting party itself, and a Client's ability to obtain recourse may be limited. All of a Client's investments in sovereign debt instruments (if any) will be subject to typical market risks.

**Bridge Loans.** It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including leveraged buyouts. 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. In the past, these commitments were not frequently drawn upon due to the availability of other sources of financing; however, due to market conditions affecting the availability of these other sources of financing (principally high-yield bond transactions), bridge loan commitments have been and may be drawn upon more regularly. Since these commitments were not regularly drawn upon in the past, there is little history for investors to rely upon in evaluating investments in bridge loans. Bridge loans often have shorter maturities. Borrower and lenders typically agree to shorter maturities based on the anticipation that the bridge loans will be replaced with other forms of financing within such shorter time period. However, the source and timing of such replacement financing may be uncertain and can be affected by, among other things, market conditions and the financial condition of the borrower at the maturity date of the bridge. If the borrower is unable to obtain replacement financing and repay the bridge loan at maturity, the terms of the bridge loan may provide for the bridge loan to be converted to a longer-term loan. If bridge loans are not repaid (or cannot be disposed of on favorable terms) on the dates projected by the Registrant, there may be an adverse effect upon the ability of the Registrant to manage Client assets in accordance with its models and projections or an adverse effect upon the performance of Client accounts and the ability to make distributions to investors.

**Revolving Credit Facilities.** A Client may acquire funded and unfunded revolving credit facilities (“**Revolvers**”). In some cases, a Client will need to acquire a Revolver in order to participate in the term loan associated with such Revolver. Because Revolvers can generally be drawn on short notice (such as with one (1) business day prior notice), a Client may need to hold cash reserves or use borrowings under a subscription or other credit facility in order to fund any draw on such Revolvers. Such cash reserves and/or interest costs and other expenses associated with any borrowings by a Client will likely reduce, or be a drag on, the returns of a Client, although a Client will receive a nominal fee on the undrawn amount of any such Revolver. In addition, prediction of Revolver utilization is inherently subjective and may not take into account changes in credit quality and changes

in cash flow, including working capital fluctuation and acquisition activity. While higher than expected utilization increases the current income of a Client, it can also lower returns to the extent that a Client needs to call capital to satisfy borrowing requests and will increase a Client's exposure to defaults by the borrower under the Revolver. There are also operating and financial risks of Revolver borrowers, as Revolver borrowers could deteriorate as a result of, among other factors, an adverse development in their business, a change in their competitive environment, or an economic downturn. As a result, Revolver borrowers that a Client may have expected to be stable may operate at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or to maintain their competitive positions, or may otherwise have a weak financial condition or be experiencing financial distress. All of the foregoing may result in higher than expected draws on Revolvers and/or the inability of any Revolver borrower to repay any existing draws on such Revolver. Further, the capital structure of a Revolver borrower that is subject to leverage will increase the exposure of such Revolver borrower to adverse economic factors (such as rising interest rates, changes in commodity prices, downturns in the economy or a deterioration in the condition of such Revolver borrower), each of which may impair such underlying Revolver borrower's ability to finance its future operations and capital needs and may result in the imposition of restrictive financial and operating covenants or increase the risk of defaults by such Revolver borrower under a Revolver. If any such factors cause or contribute to such Revolver borrower's inability to generate sufficient cash flow to meet principal and/or interest payments on its indebtedness or similar payments or obligations under any Revolver, such Revolver borrower's flexibility to respond to changing business and economic conditions may be constrained materially and may increase the risk of default and/or insolvency and the value of Revolvers could be significantly reduced or even eliminated, and potentially resulting in the returns to a Client being lower than would otherwise have been the case.

An additional concern in acquiring a Revolver is the possibility of material misrepresentation or omission on the part of the Revolver seller, the Revolver borrower or other credit support providers, or breach of covenant by any such parties. Such inaccuracy or incompleteness or breach of covenants may adversely affect the valuation of the collateral underlying the loans or the ability of the Revolver lenders to perfect or effectuate a lien on the collateral securing the loan or a Client's ability to otherwise realize on or avoid losses in respect of the investment. A Client will rely upon the accuracy and completeness of representations made by any such parties to the extent reasonable, but cannot guarantee such accuracy or completeness.

Certain risks described above apply also to other unfunded commitments, such as a delayed-draw term loan.

**Illiquid and Restricted Investments.** Investments selected by the Registrant may be illiquid due to transfer restrictions, the size of an interest held or for other reasons. As a result, it may be necessary to hold these investments for an indefinite period of time. Generally, a less liquid investment bears more risk than a more liquid one. For example, if

the Registrant is unable to liquidate an investment as its value declines, the Registrant will be unable to limit Clients' losses on such investment. Similarly, if a Registrant is unable to liquidate an investment at a time when cash is needed, the Registrant may miss other investment opportunities or be forced to sell other investments at unfavorable times. The market prices, if any, for such investments may be volatile. The sale of restricted and illiquid securities may require more time and result in higher brokerage charges or dealer discounts and other selling expenses than would the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

**Distressed Investments.** The Registrant may invest on behalf of Clients in companies that are experiencing significant financial or business difficulties, including companies in need of restructuring or already involved in bankruptcy or other reorganization and liquidation proceedings. These investments involve a substantial degree of risk. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Registrant will correctly evaluate the value of the assets collateralizing Clients' distressed investments or the prospects for a successful reorganization or similar action. Distressed investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings.

**Restructuring Situations.** The Registrant may invest on behalf of Clients in companies that face financial or operational difficulties or are otherwise in need of restructuring. To the extent that the Registrant becomes involved in such proceedings, the Clients may have a more active participation in the affairs of the company than that assumed generally by an investor. The Registrant may not be able to implement a restructuring in a timely manner or at all, and the companies may go out of business or become subject to bankruptcy proceedings. Risks include, without limitation: (i) a subsequent characterization of a payment from the company as a "fraudulent conveyance"; (ii) the recovery as a "preference" of liens perfected or payments made on account of a debt in the 90 days before a bankruptcy filing; (iii) a bankruptcy court decision to disallow, subordinate or disenfranchise Clients' claims to the company's assets (including due to equitable subordination claims by other creditors); and (iv) so-called lender liability claims by the issuer of the obligations. Other factors could adversely affect a Client's investment in such a situation, including the Registrant's misjudgment of the time required to complete a restructuring, failing to adequately monitor the company and the creditors' committees or incurring liability as an insider or fiduciary of the company. In addition, involvement by the Registrant in a company's reorganization proceedings could result in the imposition of restrictions limiting the Clients' ability to liquidate their position in the issuer. Furthermore, reorganizations can be contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. The process can involve substantial legal, professional and administrative costs to the company itself and the Registrant's Clients. In addition, restructurings are subject to unpredictable and lengthy delays, and, during the process, the company's competitive position may

erode, interest may not be current or accruing, key management may depart and/or the company may not be able to invest adequately. The Registrant anticipates that it and its Clients may be named as defendants in civil proceedings. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the applicable Clients. In certain cases, Clients' priority rights may be affected or impaired by a bankruptcy process. The Registrant and/or its affiliates, on behalf of Clients, may elect to serve on creditors' committees, official or unofficial, equity holders' committees or other groups to ensure preservation or enhancement of Clients' positions as creditors or equity holders. As a result, Clients may be restricted or prohibited under applicable law from transacting in investments in the relevant company. If the Registrant and/or its affiliates resigns from or does not participate in such committees or groups, the Clients may not realize the benefits, if any, of participation on such committees or groups.

In any reorganization or liquidation proceeding relating to a company in which the Registrant invests for a Client, such Client may lose its entire investment, may not show any return for a considerable period of time, or may be required to accept cash, securities or other instruments with a value less than the Client's original investment or that pose their own risks and conflicts unique to their asset type. Under such circumstances, the returns generated from a Client's investments may not compensate such Client adequately for the risks assumed.

**Energy-Related Investments.** Clients may invest in energy-industry assets and businesses, which are typically regulated to varying degrees, including restrictions imposed by environmental regulators. In addition, statutory and regulatory requirements may include those imposed by energy, zoning, land use, safety, labor and other regulatory or political authorities. It is possible that changes to applicable regulations or regulatory practice could have adverse consequences for Clients' energy investments. Certain energy-industry assets and businesses may be subject to financing and other support from national, state and local governments and regulatory agencies. The elimination of, or reduction in, such financial and other support could have a material adverse effect on the relevant company's financial condition or results of operation. Ordinary operation or the occurrence of an accident, with respect to an energy asset, could cause environmental damage, which may result in significant financial distress to such asset. Certain environmental laws and regulations may require that an owner or operator of an energy asset address prior environmental contamination, which could involve substantial costs. Companies may be exposed to substantial risk of loss from environmental claims or protests.

**Renewable Energy.** Clients may make investments in renewable energy projects. The market for renewable energy is emerging and rapidly evolving, and its future success is uncertain. If renewable energy technology proves unsuitable for widespread commercial deployment or if the demand for renewable energy products fails to develop sufficiently (including as a result of changes in market conditions, such as a decrease in the price of fossil fuels), Clients' investments in renewable energy projects may be adversely affected.

While renewable energy projects currently enjoy wide support from U.S. state and local governments and regulatory agencies, there is no assurance that such support will continue in the future and any reduction or elimination of governmental support will have an adverse effect. Renewable energy projects rely on incentives that support the sale of energy generated from renewable sources, including state adopted renewable portfolio standard programs, which vary among states, but generally require power suppliers to provide a minimum percentage or base amount of electricity from specified renewable energy sources for a given period of time.

**Software and Technology Related Investments.** Clients may invest in portfolio companies whose performance may be highly correlated with their ability to successfully implement new technology and/or exploit existing technologies. The technology sector is challenged by various factors, including rapidly changing market conditions and participants, new competing products and services and improvements in existing products and services. There is no assurance that products or services sold by portfolio companies will not be rendered obsolete or adversely affected by competing products and services or other challenges. In the event that the technology sector declines or that portfolio companies are unable to utilize technology successfully and competitively, returns to Clients may decrease.

**Infrastructure Related Investments.** Clients may invest in the assets of infrastructure companies, which are susceptible to various factors that may negatively impact their businesses or operations, including costs associated with compliance with and changes in environmental, governmental and other regulations, rising interest costs in connection with capital construction and improvement programs, government budgetary constraints that impact publicly funded projects, the effects of general economic conditions throughout the world, surplus capacity and depletion concerns, increased competition from other providers of services, uncertainties regarding the availability of fuel and other natural resources at reasonable prices, the effects of energy conservation policies, unfavorable tax laws or accounting policies and high leverage. Infrastructure companies will also be affected by innovations in technology that could render the way in which a company delivers a product or service obsolete, significant changes to the number of ultimate end-users of a company's products, inexperience with and potential losses resulting from a developing deregulatory environment, increased susceptibility to terrorist attacks and natural or man-made disasters and other natural risks (including earthquakes, floods, lightning, hurricanes, tsunamis and wind). Infrastructure companies also face operating risks, including the risk of fire, explosions, leaks, mining and drilling accidents or other catastrophic events.

**Registered Closed-End Funds, Exchange-Traded Funds and CLOs.** The Registrant may cause a Client to invest a portion of its assets in one or more registered closed-end funds, exchange-traded funds, or CLOs (including CLOs managed by the Registrant or its affiliates) or similar securities. When such investments are made, such Client (and, indirectly, any investor in such Client) will effectively be paying, in addition to the compensation payable to the Registrant, such Client's proportionate share of any

management fees or other compensation (including any performance-based fees) charged by the manager of such registered closed-end fund, exchange-traded fund, CLO or similar security, as well as its *pro rata* portion of the expenses incurred by such entity.

**Event-Oriented Situations.** The price offered for securities or other obligations of a company involved in an announced deal can generally represent a significant premium above the market price prior to the announcement. Furthermore, the difference between the price paid by the Clients for securities or other instruments of a company involved in an announced deal and the anticipated value to be received for such securities or other instruments upon consummation of the proposed transaction will often be very small. If the proposed transaction appears likely not to be consummated or, in fact, is not consummated or is delayed, the market price of the securities or other instruments will usually decline, perhaps by more than the Clients' anticipated profit.

**Opportunistic/Macro Investing.** Clients may invest on an opportunistic basis, seeking to take advantage of trends in the market. On occasion, the Registrant may identify trends in the market and seek to invest in such trends before the rest of the market, and then sell before a trend ends. Opportunistic investing can be very volatile and involve heavy short-term trading. Short-term trading can generate high trading costs and produce gains taxable at higher rates.

**Use of Leverage.** The Registrant may use leverage in its investment program, as agreed with the relevant Clients, including the use of borrowed funds and certain types of swaps, repurchase agreements, options, such as puts and calls, and warrants. Leverage strategies increase the risk of loss, potentially up to a loss of total commitment amount and profits. Leverage may be applied with respect to a Client portfolio as a whole or with respect to one or more investments, and the presence of such leverage will magnify the volatility of and substantially increase the risk profile of investments. To the extent the Registrant purchases securities and/or obligations with borrowed funds, net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The interest costs associated with such borrowing will reduce Clients' returns. If the interest expense on borrowings were to exceed the return on the investments made with borrowed funds, the use of leverage would result in a lower rate of return than if leverage was not used, magnifying the potential loss on amounts invested and therefore increasing the risks associated with such an investment. Lenders may, under the terms of financing arrangements put in place with them, have the right to withhold distributions of interest payments in respect of any or all leveraged investments for various reasons, including in the event that any such investment fails to perform as expected. Further, to the extent income received from investments is used to make payments under any financing arrangement, a Client and its investors may be allocated income, and, therefore, tax liability, in excess of cash received by them in distributions. Borrowings will typically be secured by Clients' securities and other assets and/or by assignment of the obligations of the Client's investors to make capital contributions to the Client. Under certain circumstances and pursuant to a Client's constituent documents, assets may need to be



liquidated or additional investor capital may need to be called to meet interest and principal payments on the borrowings. Under certain circumstances, the lender may demand an increase in the collateral that secures the Clients' obligations and if the Clients were unable to provide additional collateral, the lender could liquidate assets held in the account to satisfy such Clients' obligations to the lender. Liquidation in such manner could have extremely adverse consequences.

**Use of Derivatives; Hedging Transactions.** The Registrant will, from time to time, utilize a variety of financial instruments such as derivatives, swaps, caps and floors, options, futures, and forward contracts both for investment purposes and for risk management purposes, including to hedge against fluctuations in the relative values of its portfolio positions from changes in commodity prices, currency prices and market interest rates, and for speculative or financing purposes. Hedging against a decline in the values of the Registrant's portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can offset the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. Furthermore, there is a risk that the Registrant may not anticipate a particular risk so as to hedge against it or may choose not to hedge a known potential risk.

**Joint Ventures.** The Registrant may cause Clients to co-invest with third parties through partnerships, joint ventures or other entities. In such cases, the existing management and board of directors of such companies may include representation of other financial investors with whom such Clients are not affiliated and whose interests may conflict with the interests of such Clients. In addition, Clients may in certain circumstances be liable for the actions of their third-party partners or co-venturers. Investments made with third parties in joint ventures or other entities also may involve carried interests and/or other fees payable to such third-party partners or co-venturers. Clients may not have control over these investments, may not have sole discretion over such investments and may have a limited ability to protect their positions therein. The Registrant generally expects that appropriate minority investor rights for Clients will be obtained to protect their interests to the extent possible. There can be no assurance that such minority investor rights will be available, however, or that such rights will provide sufficient protection of Client interests. The Registrant's participation on behalf of Clients in a joint venture may impose an obligation on the Registrant to offer to the joint venture investment opportunities of which the Registrant becomes aware in the course of its other investment activities.

**Special Purpose Entities.** The Registrant may, in its discretion, structure any investment, in whole or in part, as an investment made directly by a Client and/or through one or more special purpose entities or subsidiaries and/or restructure an existing investment that was initially held directly by one or more clients such that, following such restructuring, such investment is held indirectly through one or more special purpose entities or subsidiaries, in each case, in order to address legal, tax, regulatory, currency or other considerations with

respect to one or more other Clients (which considerations may only affect one or more of such other Clients and include the administrative convenience of the Registrant, its affiliates and/or one or more other Clients), as deemed appropriate by the Registrant. The Clients investing through any such special purpose entity or subsidiary will bear any and all fees, costs and expenses in connection with the formation, organization, operation, management and dissolution of such special purpose entity or subsidiary (including the fees, costs and expenses of preparing the constituent documents and any other agreements of (or related to) such special purpose entity or subsidiary) and any borrowings incurred by such special purpose entity or subsidiary, even in circumstances where such special purpose entity or subsidiary is intended primarily or solely for the benefit of one or more select Clients and not all such Clients. To the extent a Client holds an investment through a special purpose entity or subsidiary, the Client's returns may be adversely impacted.

**Investments in Platform Structures and Similar Entities and Related Conflicts of Interest.** The Registrant may cause Clients to acquire full or partial passive or controlling ownership interests in an operating business (each, a “**Platform**”). An investment in a Platform may be with one or more third-party joint or co-investors, and the investment strategy may include engaging a third-party team to operate, service or otherwise manage the Platform. In some cases, Clients may make equity or debt investments in (and may act as a seed investor in) a third-party management team as part of the Platform investment. Any such third-party management teams may have little or no operating history upon which to judge future performance, little or negative cash flow, may employ or propose to employ new and/or untested technologies and products and may have personnel with limited experience working together, all of which will enhance the difficulty of evaluating these investment opportunities. If not already in place, such third-party management teams will need to implement and maintain accounting, legal and other administrative resources and will be subject to other substantial operational risks, including uncertain market acceptance of the Platform's or management teams' products and services, potential regulatory risks relating to new or untried and/or untested business models (if applicable) and/or products and services (to the extent they relate to regulated activities in the relevant jurisdiction), high levels of competition among similarly situated businesses, lower capitalization and less access to financial resources and the potential for rapid organizational or strategic change. Although a Client may provide a Platform and/or its management entity with capital (including seed capital) in connection with a Platform investment, depending on the terms of the investment, such Client may not have the right to participate in any residual or going concern value upon disposition of such Platform or any associated management entity.

The associated management teams may provide various services to a Client in connection with such Platform's investments, including sourcing, consulting, servicing, due diligence, underwriting and/or other similar services. Any fees (including any management fees and/or performance-based fees paid to third party management teams), costs and expenses arising from or in connection with the discovery, evaluation, investigation, development, consummation, management and disposition of any potential or actual Platform

investments will be considered expenses of the operating company and will, directly or indirectly, be borne by the Client.

It is possible the Registrant may make an investment in the associated management entity. In that case, any fees earned by the associated management teams from the operating company, including management fees or performance-based fee arrangements, will be evaluated on a case-by-case basis and the Registrant and its related general partner and/or advisory affiliates may determine, in their sole discretion, subject to Client constituent documents, not to reduce or offset advisory fees paid by the Client by the amount of any such fees or other compensation.

To the extent that the participation of a Client in a Platform investment that is otherwise suitable for such Client would cause the investment to become subject to requirements and/or restrictions of any applicable law, rule or regulation that could have an adverse impact on any or all participating investors in such Platform investment, such Client may be excluded from participating in such Platform investment. Furthermore, once established, a Platform may be structured as a closed-ended vehicle and act as the exclusive investment vehicle for Clients of the Registrant with respect to certain asset classes or investment opportunities that would otherwise be suitable for such Client. In such case, otherwise suitable investment opportunities may be allocated only to such Platform (including to any Clients participating in such Platform) and not to Clients whose investment activities commenced after the establishment of such Platform. Even if a Platform investment is structured as an open-ended vehicle, it may be determined that a new Client should not participate in such existing Platform investment, including if such participation could dilute or otherwise adversely impact other Clients' participation in such Platform investment. Platform investments are generally illiquid in nature. See "*Illiquid and Restricted Investments*" for more information.

The Registrant's acquisition, on behalf of its Clients, in Platform investments creates the potential for certain conflicts of interest. For example, the Registrant may cause Clients to invest in a Platform in which the Registrant or its affiliate has a direct or indirect economic interest, which may be a controlling interest, in which case the Registrant may have been incentivized to cause a Client to invest in such Platform partially because of such direct or indirect economic interest. To the extent that a Client invests in a Platform and the Registrant holds an equity interest solely in the management entity of such Platform, the Registrant will have a conflict of interest which could affect its decisions vis-à-vis the Platform and such Client. Additionally, the Registrant may cause a Client to invest in a Platform to make investments that the Client could otherwise have invested in directly where investing indirectly through such Platform results in more favorable expense treatment or other economic advantages for the Registrant and/or its affiliates. In addition, the Registrant and its related general partner and/or advisory affiliates may have an incentive to arrange the purchase by a Client of assets (including loans backed by real estate, ships, airplanes and similar collateral) from a Platform or services from the associated management entity (thereby generating profits or fees for the Clients that have

an interest in such Platform and/or its management entity). Finally, conflicts could arise if the associated management entity breaches its sales agreement, servicing agreement, consultancy arrangement and/or other similar arrangement with a Client or otherwise fails to perform its responsibilities adequately with respect to such Client, resulting in harm or damages to such Client. In such circumstances, the Registrant and its related general partner and/or advisory affiliates may have a conflict in determining whether to seek appropriate recourse for the affected Client, including through litigation. The Registrant and its related general partner and/or advisory affiliates intend to resolve all such conflicts using their good faith judgment, taking into account all factors they deem relevant in their sole discretion.

**Co-Investments.** The Registrant may, from time to time, depending on the type of investment opportunity, in their discretion, offer co-investment opportunities with respect to a Client's investments to (i) co-investment vehicles, (ii) other Clients (iii) any investors, (iv) affiliates or employees of the Registrant (and/or their family members) or (v) any other person or entity, including, without limitation, any person or entity whom the Registrant believes, in its discretion, may provide a strategic, sourcing or similar benefit to the Registrant, a Client, any investment of a Client or one or more of their respective affiliates due to industry expertise or otherwise, including finders, senior advisors, originators and/or consultants of a Client (and the Registrant may organize one or more entities to co-invest to facilitate personal investments by any of the foregoing persons or entities) (collectively, in such capacity, "**Co-Investors**"). In allocating co-investment opportunities, the Registrant may consider any factors they deem relevant in their discretion, including, without limitation, the sophistication, transaction speed and tenure as a Client or investor (if applicable), the amount a prospective Co-Investor is offering to commit to a co-investment opportunity, any commitments (contractual or otherwise) to make co-investment opportunities available to a prospective Co-Investor, any commitments by a prospective Co-Investor to invest in current or future products of the Registrant, the strategic expertise of a prospective Co-Investor or the ability of a prospective Co-Investor to provide a sourcing or other benefit to the Registrant. In such circumstances, together with any allocations made to the other Clients, the size of the investment opportunity otherwise available to a Client may be less than it would otherwise have been. Co-Investors may not be subject to or otherwise charged any advisory fees and/or performance-based fees. In addition, certain Co-Investors may invest on different (and more favorable) terms than those applicable to a Client and may have interests or requirements that conflict with and adversely impact the Clients (for example, with respect to their liquidity requirements, available capital, the timing of acquisitions and dispositions or control rights). The Registrant will generally seek to ensure that the Clients and any Co-Investors participate in any investment (and any related transactions) on comparable economic terms to the extent the Registrant determines appropriate in its discretion and subject to legal, tax, accounting, structural, regulatory, operational and/or other considerations or limitations and/or if the Registrant determines in its discretion that participation on different economic terms is advisable in order to facilitate a transaction. Investors should note, however, that participation by any Client in certain investments on comparable economic terms with Co-

Investors and other Clients may not be appropriate in all circumstances and any Client may participate in such investments on different and potentially less favorable economic terms than such parties if the Registrant deems such participation as being otherwise in such Client's best interests (e.g., by allowing the Client to participate in an investment in which it would otherwise not have been able to participate due to, among other reasons, required minimum commitment amounts). This may have an adverse impact on the Clients.

In order to facilitate an investment and/or for other purposes that the Registrant determines appropriate in its discretion, a Client may make (or commit to make) an investment with a view to selling all or a portion of such investment to Co-Investors, in each case, prior to or after making (or closing / settling) such investment. A Client will generally retain all net proceeds received in respect of any such investment during the period it holds such investment, however, such Client will bear the risk that any or all of such investment may not be sold as intended (or at the amounts intended) or may only be sold on less-favorable terms than initially expected (e.g., at prices lower than expected or at a price lower than the cost basis of such investment) due to, among other reasons, market events (or issuer specific events) that occur during the period that such Client is holding such investment. If (i) the prospective Co-Investors choose not to participate in an investment or (ii) such investment is not ultimately consummated, and unless otherwise agreed with such Co-Investors, such Client that initially acquired such investment will bear its pro rata share of the entire amount (including any amount otherwise allocable to any such Co-Investors) of any break-up fees or broken deal expenses or other fees, costs and expenses related to such investment. In addition, subject to the terms of the applicable governing documents, a Client may borrow to fund the portion of an investment that it intends to sell to Co-Investors, other Clients and/or other persons or entities. If the prospective Co-Investors do not ultimately acquire all or any portion of such investment, such Client that initially acquired such investment will bear the interest and other expenses relating to a borrowing it incurred only for purposes of acquiring a larger than desired portion of such investment. Any investment that a Client acquires with the intent to sell all a portion of such investment to Co-Investors will be sold on such terms and conditions and at such price as the Registrant (or an affiliate thereof), in its discretion, determines to be equitable, which determination, with respect to price, may include the original cost price (with or without interest) or at the fair value of such investment (or portion thereof) as of the date of such sale. Each Client, whether as a buyer or seller of an investment described in this paragraph, will bear the risk that its sale or acquisition (as applicable) of such investment will be at a price that does not reflect the then-current value of such investment. As a consequence of all of the foregoing considerations, a Client may hold a larger portion than expected in an investment and/or may realize lower than expected returns from an investment.

There is no guarantee for any investor or Client that it will be offered any co-investment opportunities. In addition, the terms of any co-investment will be as negotiated by the Registrant with the applicable Co-Investor and no such Co-Investor should assume that a particular advisory fee rate, carried interest rate or other term or provision will be offered as a result of, among other things, such Co-Investor's investment in any Client.

**Lender Liability and Equitable Subordination.** In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed, “**lender liability**”). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to a borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (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 to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called “**equitable subordination**.” Clients could be subject to these risks. In addition, laws of non-U.S. jurisdictions may also impose liability upon lenders or bondholders under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under U.S. federal and state laws.

**Synthetic Securities.** In addition to credit risks associated with holding below investment grade securities and obligations, Clients investing in synthetic instruments will usually have a contractual relationship only with the counterparty of such synthetic instruments, and not the issuer of the underlying or linked obligation (whether an equity, debt or other instrument). Clients generally will have no right to directly enforce compliance by the underlying or linked issuer, nor any rights of set-off against such issuer, nor have any voting rights with respect to the underlying or linked obligation. Clients will not benefit directly from the collateral supporting that obligation or have the benefit of the remedies that would normally be available to a holder of that obligation. If a Client enters into a derivative instrument whereby it agrees to receive the return of a security or financial instrument or a basket of securities or financial instruments it will typically contract to receive such returns for a predetermined period of time. During such period, the Client may not have the ability to increase or decrease its exposure. In addition, such customized derivative instruments can be highly illiquid, and it is possible that the Client will not be able to terminate such derivative instruments prior to their expiration date or that the penalties associated with such a termination might impact the Client’s performance in a material adverse manner. In addition, in the event of insolvency of the counterparty to such a contract, Clients will be treated as general creditors of such counterparty. As a result, concentrations of synthetic instruments in any one counterparty subject these investments to an additional degree of risk with respect to defaults by the counterparty as well as by the issuer of the underlying or linked obligation.

**Short Selling.** Short selling creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the investor of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Additionally, certain market participants could accumulate such securities in a “short squeeze,” which would reduce the available supply of, and thus increase the cost of, such securities. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

In response to dislocations in the financial services industry and other market events, the SEC, many European securities regulators, including the United Kingdom’s Financial Conduct Authority, and other regulators implemented certain prohibitions and disclosure requirements on short selling of securities. In Europe, the European Short Selling Regulation (No 236/2012) came into force in 2012 and restricts uncovered short sales of shares and European sovereign debt instruments, prohibits the entry into uncovered sovereign credit default swaps and requires investors to notify the relevant competent authority of any net short positions in European sovereign debt instruments and shares admitted to a trading venue in the European Union. Regulators may have powers to impose additional or enhanced short selling restrictions in times of particular market stress. Limitations on the short selling of securities could interfere with the ability of a Client to execute certain aspects of its investment strategies, including its ability to hedge certain exposures and execute transactions to implement its risk management guidelines.

**Residential Loans.** Residential loans are residential mortgage loans secured by real property and are obligations of the borrowers thereunder. Some, but not all, residential loans are government-guaranteed or privately insured. Residential loans may be prepaid at any time. Residential loans may be securitized, and the securities issued in such securitization may be guaranteed or credit enhanced. Therefore, the value of the underlying collateral, the creditworthiness of the borrower, and the priority of the lien are each of great importance. A decrease in real estate or other prices relating to the underlying collateral may reduce the equity component in such real estate or other collateral and may result in higher loan-to-value ratios. A residential loan is directly exposed to losses resulting from default and foreclosure on the underlying collateral. The rate of defaults and size of losses on residential mortgage loans will be affected by a number of factors, including general economic conditions, the condition of the area where the related mortgaged property is located, geographic risks such as natural hazards, the borrower’s equity in the mortgaged property, the standards by which the loan was originated and the financial circumstances of the borrower. Residential loans include so-called “Jumbo” mortgage loans, which have original principal balances that exceed the maximum for residential loans imposed by government sponsored entities (*e.g.*, Fannie Mae or Freddie Mac). In addition, adverse changes in the real estate market increase the probability of default, as the incentive of the borrower to retain equity in the property declines. Furthermore, many of the properties which will secure real estate loans originated or purchased by Clients may be suffering varying degrees of financial distress or may be located in economically distressed areas. If

the fair market value of the collateral securing a residential loan falls below the remaining principal balance of the loan, the loan has greater risk of payment default as well as a risk that the net proceeds of any foreclosure will not cover the entire loan. If a residential mortgage loan is in default, the loan may need to be restructured, which may result in a write-down of the principal of the loan, or may result in foreclosure. The Registrant may find it necessary or desirable to foreclose on some if not many of the loans acquired. This foreclosure process may be lengthy and expensive. There is unlikely to be a liquid secondary market for these types of investments. The liquidation proceeds upon sale of such collateral may not satisfy the Client's basis or outstanding balance of principal and interest on the loan, resulting in a loss to the Clients. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying collateral will further reduce the proceeds and thus increase the loss. In addition, there can be no assurance as to the adequacy of the protection of the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, claims may be asserted that might interfere with enforcement of the rights of Clients. In the event of a foreclosure, Clients may assume direct ownership of the underlying collateral. Furthermore, residential mortgage loans may be subject to various federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions, resulting in losses to Clients.

**Structured Products.** The Registrant may invest on behalf of Clients in securities backed by, or representing interests in, certain underlying instruments ("**structured products**"), including, but not limited to, CLOs, structured debt obligations or similarly structured investment vehicles. The extent of the payments made with respect to the structured products is dependent on the extent of the cash flow from the underlying instruments. The performance of a particular structured product will be affected by a variety of factors, including its priority in the capital structure of the issuer, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.

Investments in structured products may be illiquid in nature, with no readily available secondary market. Because they are linked to their underlying markets or instruments, investments in structured products generally are subject to greater volatility than an investment directly in the underlying market or instrument. Total return on a structured product is derived by linking the return to one or more characteristics of the underlying instrument. Subordinated structured products typically have higher yields and present



greater risks than unsubordinated structured products. Structured products are typically sold in private placement transactions, and there is no guarantee that there will be an active trading market for structured products.

Investments in CLOs are extremely complex and are subject to additional risks related to, among other things, changes in interest rates, the rate of defaults and recoveries in the collateral pool, pre-payment rates, terms of loans purchased to replace loans in the collateral pool which have pre-paid and the exercise of remedies by more senior tranches. If a CLO fails to satisfy one of the coverage tests provided in its indenture, all distributions in respect of the CLO may cease or be reduced until such CLO brings itself back into compliance with such coverage tests. In addition, risks relating to the underlying leveraged loans will also affect the performance of the related CLO.

**ERISA Client Investments in CLO Equity.** In connection with any proposed amendment relating to a refinancing, repricing, reissue or reset of a CLO or a required and/or optional direction to redeem a CLO, in either case, in which one or more Clients of the Registrant holds a first loss interest (i.e., equity securities), the Registrant conducts scenario analyses utilizing a proprietary Intex model and will (i) vote to approve any such proposed amendment that the model results project will increase the equity securities' present value cash flows and (ii) direct any such redemption in which the Registrant desires to sell such equity securities on behalf of such Clients when the model results in a higher value than that at which such Clients could sell its equity securities to a third-party. As a result, if a Client holds a position in a CLO that is not a first loss interest (e.g., a debt security), the actions that the Registrant will take on behalf of other Clients (including ERISA Clients) in accordance with the preceding sentence will result in such Client's CLO investment being reset, refinanced or redeemed, which, in each case, would result in such Client account's investment being paid at par plus accrued interest. In such event, the Registrant may not be able to invest the proceeds in another investment with a similar risk-return profile.

**Affiliated CLOs and Funds.** The Registrant may invest on behalf of its Clients in CLOs (both in the new issue and secondary market) or funds managed by the Registrant (or an affiliate thereof) (each, an "**Affiliated Client**"). An Affiliated Client may pay management fees and/or other performance-based fees to the Registrant (or an affiliate thereof). When any such investment in securities of an Affiliated Client is made, a Client will indirectly bear its proportionate share of fees or other performance-based fees paid to the Registrant (or an affiliate thereof) by the Affiliated Client, in addition to the compensation payable to the Registrant (or an affiliate thereof) in connection with its management of such Client. With respect to a new issue or launch of an Affiliated Client, as a result of such fees or other performance-based fees, and particularly where the new issue is not oversubscribed or there is additional capacity in the new launch, the Registrant may be incentivized to cause Clients to invest in such Affiliated Client.

**Residential Mortgage-Backed Securities.** The Registrant maintains investments on behalf of Clients in RMBS, which represent interests in pools of residential mortgage loans secured by real property. Holders of RMBS bear various risks, including credit, market, interest rate, structural, service and legal risks. Holders of RMBS bear the risks relating to the underlying residential loans. In addition, the Registrant will generally not be able to control the processes that lead to a decline in the value of the underlying mortgaged properties comprising an RMBS investment. Each of the foregoing could negatively affect the prices of RMBS held by the Registrant's Clients.

**Aircraft.** The Registrant may invest, on behalf of its Clients, in aircraft (including parts thereof) and aircraft-related investments, including indirectly through securities backed by aircrafts or aircraft-related assets, and directly through private equity-like investments in aircrafts and aircraft-related assets. Commercial aircraft operators are engaged in economically sensitive, highly cyclical and competitive businesses. In connection with their acquisition of aircraft or aircraft-backed securities, Clients are affected by all the risks facing a commercial aircraft operator, which are beyond the company's control. A commercial aircraft operator's results of operations depend, in part, on the financial strength of its customers and its customers' ability to compete effectively in the market and manage their risks. Risks to which a commercial operator may be subject include, among others: general economic conditions in the countries in which its customers operate, including changes in gross domestic product and currency fluctuations; demand and rates for air travel and air cargo shipments; changes in interest rates and the availability and terms of credit; concerns about security, terrorism, war, public health and political instability; environmental compliance and other regulatory costs; labor contracts, labor costs and stoppages; aircraft fuel prices and availability; technological developments; maintenance costs; airport access and air traffic control infrastructure constraints; insurance and other operating costs; industry capacity, utilization and general market conditions; and market prices for aviation equipment.

**Shipping.** The Registrant may invest, on behalf of its Clients, in ships and shipping-related investments, including indirectly through securities backed by ships or shipping-related assets, and directly through private equity-like investments in ships and shipping-related assets. The shipping industry is both cyclical and volatile in terms of charter rates and profitability. In addition, it is a highly competitive industry that is capital intensive and highly fragmented. In connection with their acquisition of shipping vessels or shipping asset-backed securities, Clients are affected by all of the risks facing an operator of ocean-going shipping vessels, which are beyond the company's control. The demand for containership capacity is influenced by, among other things: the supply and demand for products suitable for shipping in containers; changes in global production of products transported by containerships; the globalization of manufacturing; global and regional economic and political conditions; developments in international trade; changes in seaborne and other transportation patterns; and environmental and other regulatory developments. In addition, the shipping industry is subject to a number of unique risks, such as the risks of piracy, governmental seizure of vessels during wartime, terrorist attacks

and other international hostilities, and the availability of ports of call, and is subject to significant regulation and liability under environmental and operational safety laws. An oversupply of shipping capacity could lead to depressed charter rates. In addition, the asset values of shipping vessels have historically been volatile, which results in an unwillingness of banks and other financial institutions to extend credit. This could result in a decline in the value of the Clients' investments in this industry, as the shipping industry is highly dependent on the availability of credit to finance and expand operations.

**Real Estate.** The Registrant may acquire on behalf of its Clients, directly or indirectly, debt and/or equity interests in real estate. The real estate investments of Clients will be subject to the risks generally incident to the ownership of real property, including uncertainty of cash flow to meet fixed and other obligations; adverse changes in local market conditions, population trends, neighborhood values, community conditions, general economic conditions, local employment conditions, interest rates, and real estate tax rates; changes in fiscal policies; competition from other properties; and uninsured losses and other risks that are beyond the control of Clients, such as the threat of terrorism and their consequences. There can be no assurance of profitable operations because the cost of owning Clients' real estate investments may exceed the income produced, particularly since certain expenses related to real estate and its development and ownership, such as property taxes, utility costs, maintenance costs and insurance, tend to increase over time and are largely beyond the control of the owner. In addition, Clients' ownership of equity interests in real estate may have tax consequences for certain investors that do not apply in the case of Clients' ownership of debt interests in real estate.

**Equity Investments.** The Registrant may invest on behalf of its Clients in preferred stock, common stock or other equity securities directly, or may hold such securities as the result of certain restructuring activities. Investments in equity securities of small or medium-sized market capitalization companies will have more limited marketability than the securities of larger companies. Additionally, because equity securities rank lower in the capital structure of an issuer, such investments may subject investors to additional risks not applicable to debt securities and holders of equity securities may be wiped out or substantially reduced in value in a bankruptcy proceeding or restructuring. The Registrant may not be able to realize gains from its equity interests, and any gains that it does realize on the disposition of any equity interests may not be sufficient to offset any other losses it experiences.

**Mezzanine Investments.** Mezzanine investments may be unsecured and made in companies whose capital structures have significant indebtedness ranking ahead of Clients' investments, all or a significant portion of which may be secured. Mezzanine investments may not benefit from all the similar financial and other covenants and rights as those enjoyed by the indebtedness ranking ahead of such investments. Depending on the form of

the investment, the risks set out in *High Yield Bonds* or *Leveraged Loans* above may also apply.

**Non-Performing Nature of Loans.** There are varying sources of statistical default and recovery rate data for loans and other debt securities and numerous methods for measuring default and recovery rates. The historical performance of the credit market or the leveraged loan market is not indicative of future results. It is anticipated that certain of the loans that the Registrant may invest in for Clients may be or may become non-performing and possibly in default. Furthermore, the obligor and/or relevant guarantor may also be in or enter into bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments with respect to the loans. Although the Registrant will attempt to manage these risks, there can be no assurance that such investments will increase in value or that Clients will not incur significant losses.

**Credit Risk; Collateral.** One of the fundamental risks associated with Clients' investments is credit risk, which is the risk that a borrower will be unable or unwilling to make principal and interest payments on its outstanding debt obligations, including Clients' investments, when due. Clients' returns would be adversely impacted if a borrower fails to make such payments when due.

Although some Clients' investments will be secured by specific collateral, there can be no assurance that the liquidation of any such collateral would satisfy the borrower's obligations, or that such collateral could be readily liquidated. In addition, in the event of bankruptcy of a borrower, Clients could experience delays or limitations with respect to their ability to realize the benefits of the collateral securing an investment. Under certain circumstances, collateral securing an investment may be released without the consent of Clients. The collateral, even when received, may pose its own risks and conflicts unique to its asset type.

Moreover, Clients' security interests (with respect to investments in secured debt) may be unperfected or otherwise limited for a variety of reasons, including the failure to make required filings by lenders and, as a result, Clients may not have priority over other creditors as anticipated. First priority lien investments made by Clients may, in certain cases, provide a first priority lien over some, but not all, of the assets of the relevant borrower. Clients may also invest in second-lien debt, high-yield securities, marketable and non-marketable common and preferred equity securities and other unsecured instruments, each of which involves a higher degree of risk than senior first-lien secured debt, including the re-use and subsequent loss of collateral by the borrower. Furthermore, Clients' right to payment and their security interest, if any, may be subordinated to the payment rights and security interests of senior lenders. Certain of these investments may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the investment. In such cases, the ability of the issuer to repay the principal in respect of Clients' investments may be dependent upon a liquidity event or the long-term success of the company, the occurrence of which is uncertain. Certain investments pay

interest “in kind” rather than in cash, which has the effect of deferring a portfolio company’s payment obligation until the maturity or cash payment date applicable to the investment. Such investments generally have a greater potential for a complete loss of the initial investment amount compared to an investment in debt securities that makes periodic interest payments, and are more vulnerable to the creditworthiness of the issuer and any other parties upon which performance relies.

The terms of derivative arrangements may provide that related collateral given to, or received by, Clients may be pledged, lent, re-hypothecated or otherwise re-used by the collateral taker for its own purposes. If collateral received by Clients is reinvested or otherwise re-used, Clients are exposed to the risk of loss on that investment. Should such a loss occur, the value of the collateral will be reduced and Clients will have less protection if the counterparty were to default. Similarly, if the counterparty reinvests or otherwise re-uses collateral received from Clients and suffers a loss as a result, it may not be in a position to return that collateral to Clients should the relevant transaction complete, be unwound or otherwise terminate and Clients are exposed to the risk of loss of the amount of collateral provided to the counterparty.

**Senior Loans.** Senior secured loans are usually rated below investment grade or may be unrated. As a result, the credit risks associated with senior secured loans are similar to the risks of other non-investment grade fixed income instruments, although senior secured loans are senior and secured in contrast to other non-investment grade fixed income instruments, which are often subordinated or unsecured. Moreover, there is a risk that the collateral securing such loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital, and, in some circumstances, the Clients’ liens could be subordinated to claims of other creditors. Consequently, the fact that a loan is secured does not guarantee that the Clients will receive principal and interest payments according to the loan’s terms, or at all, or that the Clients will be able to collect on the loan should they be forced to enforce their remedies.

**Middle Market Loans.** Loans and other investments in middle market companies involve a number of particular risks that may not exist in the case of large public companies, including: (i) these companies may have limited financial resources and may be unable to meet their obligations under the debt securities that a Client holds, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of the Client realizing on any guarantees the Client may have obtained in connection with its investment; (ii) these companies typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which render them more vulnerable to competitors’ actions and market conditions, as well as general economic downturns; (iii) limited public information exists about many of these companies, and the Registrant is required to rely on the ability of the Registrant’s investment professionals to obtain adequate information to evaluate the potential returns

from investing in these companies, and if the Registrant is unable to uncover all material information about these companies, it may not make a fully informed investment decision, and Clients may lose money on such investments; (iv) these companies are more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on these companies' ability to meet their obligations; (v) these companies generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and (vi) these companies may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

**Private Loans.** Loans and other investments in private companies involve a number of particular risks that may not exist in the case of large public companies, including those set forth above under “*Middle Market Loans*.” In addition, the negotiation process of a private loan may stall or be abandoned for reasons other than the Registrant's lack of interest in the investment itself. If this happens after the Clients have committed, such Clients may receive smaller allocations or no allocation, or may receive allocations on different terms than expected. Private loans may be illiquid, may require issuer or borrower consent to trade, and may involve the Registrant (on behalf of itself and its Clients) obtaining material non-public information that restricts further trading in the issuers to which such material non-public information relates. The Registrant may arrange limited purpose information barriers in the context of private loan investments. For further information regarding the risks associated with the inadvertent cross of information over an information barrier, see “*Information Barriers*.”

**Consumer Loans.** The Registrant may invest on behalf of Clients in consumer loans. Such loans may be at the time of acquisition, or may become after acquisition, non-performing for various reasons. With respect to collateralized loans, the underlying property may be highly leveraged, poorly managed or substantially in need of rehabilitation. Such non-performing and sub-performing loans may require a substantial amount of workout negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of the loan. Finally, there is unlikely to be a liquid secondary market for these types of investments. Consequently, such investments may not be able to be disposed of at prices that reflect their most recent valuation or the amount paid for them.

**Loan Origination.** The Registrant may seek, on behalf of its Clients, to originate loans, including, but not limited to, secured and unsecured notes, senior and second lien loans,

mezzanine loans, and other similar investments. Loan origination involves a number of particular risks that may not exist in the case of secondary debt purchases, including:

- when originating loans, the Registrant will generally have to rely more on its own resources to conduct due diligence of the borrower, which will likely be more limited than the diligence conducted for a broadly syndicated transaction involving an underwriter;
- loan origination may involve additional regulatory risks, given the requirement to hold a license for certain types of lending in some jurisdictions. The regulatory requirements (and permitted exemptions) vary from jurisdiction to jurisdiction and may change from time to time;
- the borrowers may, in some circumstances, be higher credit risks who could not obtain debt financing in the syndicated markets; and
- the level of analytical sophistication, both financial and legal, necessary for successful financing to companies, particularly companies experiencing significant business and financial difficulties, is unusually high. There is no assurance that the Registrant will correctly evaluate the value of the assets collateralizing these loans or the prospects for successful repayment or a successful reorganization or similar action.

In addition to the risks described above and also under “*Private Loans*” and “*Middle Market Loans*,” loan origination may also result in substantial tax liabilities for certain Clients and/or investors. Finally, there is no assurance that a Client will be able to subsequently sell, assign or successfully close transactions for the loans that it originates, and if so, such Client will be forced to hold its interest in such loans for an indeterminate period of time. This could result in such Client’s investments being over-concentrated in certain borrowers.

**Shadow Banking Regulation.** There has been increasing commentary among regulators and intergovernmental institutions, including the Financial Stability Board and International Monetary Fund, on the topic of so-called “shadow banking” (a term generally taken to refer to credit intermediation involving entities and activities outside the regulated banking system). The Financial Stability Board issued a report that recommended strengthening oversight and regulation of the “shadow banking” system in Europe and it is expected that a new European Directive on Credit Purchasers and Servicers may come into force in 2021. While, at this stage, it is difficult to be certain as to the precise scope of that Directive or predict the scope of any other new regulations, if (a) such regulations were to extend the regulatory and supervisory requirements currently applicable to banks, such as capital and liquidity standards, or (b) Clients were considered to be engaged in “shadow banking,” in each case, the regulatory and operating costs associated therewith could adversely impact the implementation of Clients’ investment strategies and returns and could become prohibitive with respect to Client investments in issuers located in the European Union. In an extreme eventuality, it is possible that such regulations could render

investments by issuers located in the European Union unviable and lead to premature restructuring and/or disposition of existing investments.

**Non-U.S. Investments.** Investments outside the U.S. or denominated in non-U.S. currencies pose currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include, depending on the country involved, expropriation, confiscatory taxation, political or social instability, illiquidity, price volatility, market manipulation, changes in law, changes in governmental administration or economic or monetary policy, and changed circumstances in dealings between nations. In addition, less information may be available regarding non-U.S. investments and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies. Transaction costs of investing outside the U.S. may be high. There may be less government supervision and regulation of exchanges, broker-dealers and funds than there is in the U.S. Non-U.S. investments pose legal risks relating to the local laws and regulations and the application or interpretation thereof and the independence of judicial systems. Clients may encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in non-U.S. courts. Issuers located in non-U.S. jurisdictions may be involved in restructurings, bankruptcy proceedings and/or reorganizations under laws and regulations that may not provide Clients with rights and privileges necessary to promote and protect their interests. Generally accepted accounting standards and practices may differ significantly from those practiced in the United States. The financial information appearing on the financial statements of a company operating in one or more non-U.S. countries may not reflect its financial position or results of operations in the way they would be reflected if the financial statements had been prepared in accordance with accounting principles generally accepted in the United States. Non-U.S. markets also have different clearance and settlement procedures which may have substantial delays and settlement failures that could adversely affect Clients' performance. Greater tax risks and complexities also may be associated with these investments. Laws affecting international investment and business continue to evolve, although at times in an uncertain manner that may not coincide with local or accepted international practices. Laws and regulations, particularly those concerning foreign investment and taxation, can change quickly and unpredictably. Inconsistencies and discrepancies among various local, regional and national laws, the lack of judicial or legislative guidance on unclear or conflicting laws and broad discretion on the part of government authorities implementing the laws produce additional legal uncertainties. The burden of complying with conflict laws may have an adverse impact on the operations of the Registrant.

**Foreign Exchange Exposure.** In general, investments denominated in a currency other than the currency of the relevant Client creates exchange rate risk of loss. The Registrant may utilize options and forward contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be entered into, or, if entered into, will be effective. Forward contracts and options thereon, unlike futures contracts, are generally not traded on exchanges and are not standardized; rather, banks and dealers act



as principals in these markets, negotiating each transaction on an individual basis. Forward trading (to the extent forward contracts are not traded on exchanges) and “cash” trading are substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade, and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities 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. Fluctuations in foreign exchange markets may lead to large collateral calls, which may, in some cases, be meaningful in size and in duration. Cash posted as collateral will not be available for making or maintaining investments.

**Interest Rate Changes.** Fluctuations in interest rates may affect the value of the investments held by the Registrant on behalf of Clients. The ability of companies or businesses in which Clients may invest to refinance debt securities may depend on their ability to sell new securities in the high yield debt or bank financing markets, which could be difficult to access at favorable rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules. Factors that may affect market interest rates include, without limitation, inflation, slow or stagnant economic growth or recession, unemployment, money supply, governmental monetary policies, international disorders and instability in domestic and foreign financial markets. The risks associated with increasing interest rates are heightened given that interest rates are near historic lows, but may be expected to increase in the future with unpredictable effects on the markets and Clients’ investments. The Registrant expects that it will periodically experience imbalances in the interest rate sensitivities of Client assets and liabilities and the relationships of various interest rates to each other. In a changing interest rate environment, the Registrant may not be able to manage this risk effectively. If the Registrant is unable to manage interest rate risk effectively, Clients’ performance could be adversely affected.

**Force Majeure and Expropriation Risk.** Companies or assets may be affected by force majeure events (i.e., events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fires, floods, earthquakes, outbreaks of infectious disease, pandemics or any other serious public health concerns, wars, terrorism and labor strikes). Natural disasters, epidemics and other acts of God, which are beyond the control of the Registrant, may negatively affect the economy, infrastructure and

livelihood of people throughout the world. For example, southeast Asia and many countries in Asia, including China, Japan, Indonesia and Australia have been affected by earthquakes, floods, typhoons, drought, heat waves or forest fires. Disease outbreaks have occurred in Asia in the past (including severe acute respiratory syndrome, or SARS, avian flu, H1N1/09 flu and Coronavirus) and any prolonged occurrence of infectious disease, or other adverse public health developments or natural disasters in any country related to a Client's investments may have a negative effect on a Client. In addition, there is a risk of terrorist attacks on the United States and elsewhere, which could cause a significant loss of life and property damage and disruptions in global markets. For example, as a result of any terrorist attack, economic and diplomatic sanctions may be in place or imposed on certain countries and military action may be commenced.

Some force majeure events may negatively affect the ability of a Client or a counterparty to a Client to perform its obligations until it is able to remedy the force majeure event. In addition, the cost to a Client of repairing or replacing damaged assets resulting from such force majeure event could be considerable. Certain force majeure events (such as war or an outbreak of infectious disease) could have a broader negative impact on the world economy and international business activity generally, or otherwise negatively impact any country related to a Client's investments. Additionally, a major governmental intervention in an industry, including the nationalization of an industry or the assertion of control over one or more companies or assets, could result in a loss to a Client, including if its investment is canceled, unwound or acquired (which could be without what a Client considers to be adequate compensation). Any of the foregoing may therefore negatively affect the performance of a Client and its investments.

Losses resulting from any of the foregoing may either be uninsurable or only insurable at such high rates as to make such coverage impracticable. If any such major uninsured loss were to occur with respect to any of a Client's investments, a Client could incur substantial losses.

**Covid-19.** The recent outbreak of the novel coronavirus in many countries, including the United States, continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The global impact of the outbreak has been rapidly evolving, and as cases of the virus have continued to be identified in additional countries, many countries have reacted by instituting quarantines, restrictions on travel, bans on public events, bans on public gatherings, closures of a variety of venues (e.g., restaurants, concert halls, museums, theaters, schools and stadiums, non-essential stores, malls and other entertainment facilities) or shelter-in-place orders. On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic. On March 13, 2020, the President of the United States declared the COVID-19 outbreak a national emergency. The United States federal government and United States state governments are continuing to implement a variety of actions to mobilize efforts to mitigate the ongoing and expected impact, and the Centers for Disease Control and Prevention is implementing its pandemic preparedness and response plans, working on multiple fronts,

including providing specific guidance on measures to prepare communities to respond to the local spread of COVID-19 throughout the United States. Such actions are creating disruption in global supply chains, and adversely impacting a number of industries, such as transportation, hospitality and entertainment, as well as creating unprecedented shifts in demand, from both a technical and psychological perspective.

The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of continued global economic slowdown or volatility. The rapid development of this situation precludes any prediction as to the ultimate adverse impact of the novel coronavirus. There are no comparable recent events in the United States which provide guidance as to the effect of the spread of COVID-19 and a potential pandemic on the economy as a whole or on the business, financial condition and results of operations of the Clients' portfolio companies. Therefore, there is substantial uncertainty of COVID-19's potential effect on the Clients and their portfolio companies, which could have a material adverse effect on the Clients' investments and on the business, financial condition and results of operations of the Clients' portfolio companies. An economic downturn could adversely affect the financial resources of the Fund's portfolio companies, particularly those portfolio companies that were already highly leveraged or distressed prior to such economic downturn, and their ability to make principal and interest payments on, or refinance, outstanding debt when due. Failure to meet any such financial obligations could result in the Clients and their portfolio companies being subject to margin calls or being required to repay indebtedness or other financial obligations immediately in whole or in part, together with any attendant costs, and the Clients and their portfolio companies could be forced to sell some of its assets to fund such costs. In the event of any such consequences, the Clients could lose both invested capital in and anticipated profits from the affected investment. No previous success by the Registrant in dislocated markets is any guarantee of the Clients' success in respect of investing and managing any investment during and post- the COVID-19 pandemic.

**LIBOR.** Changes to the method of determining LIBOR or the selection of a replacement for LIBOR may affect the value of investments held by or due to Clients and could affect the results of operations and financial results. In July 2017, the U.K. Financial Conduct Authority announced that it intends to stop collecting LIBOR rates from banks after 2021. The announcement indicates that LIBOR will not continue to exist on the current basis. The Registrant is unable to predict the effect of any changes to LIBOR, the establishment and success of any alternative reference rates, or any other reforms to LIBOR or any replacement of LIBOR that may be enacted in the U.K. or elsewhere. Such changes, reforms or replacements relating to LIBOR could have an adverse impact on the market for or value of any LIBOR-linked securities, loans, derivatives or other financial instruments or extensions of credit held by or due to the Registrant or Clients. Furthermore, a significant number of the portfolio companies in which Clients are invested are borrowers of LIBOR-linked debt obligations, such as LIBOR-based credit agreements and floating rate notes, and may be negatively impacted by any changes to LIBOR and the uncertainty relating thereto. As such, LIBOR-related changes could affect the Registrant's and Clients'

overall results of operations and financial condition. Any contract to which a Client is party that has a maturity that extends beyond 2021 and that uses LIBOR as a reference rate may need to be renegotiated, the results of which negotiations may be adverse to Clients.

**Economic and Political Risks Relating to the European Region.** There is often a high degree of government regulation in European economies, including in the securities markets. Governments in certain of the countries in Europe also participate to a significant degree, through ownership interests or regulation, in their respective economies. Action by such governments may directly affect foreign investment in securities or other obligations in those countries and may also have a significant indirect effect on the market prices of securities and other obligations, as well as on the payment of dividends and interest. Changes in policy with regard to taxation, fiscal and monetary policies, repatriation of profits, and other economic regulations are possible, any of which could have an adverse effect on private investments. In certain European countries there may be high unemployment, which could hinder the ability of various governments to keep deficit spending in check. Changing political environments, regulatory restrictions, and changes in government institutions and policies in Europe could adversely affect private investments. Civil unrest, ethnic conflict or regional hostilities may contribute to instability in some countries of Europe. Such instability may impede business activity and adversely affect the environment for foreign investments. The Registrant does not intend to obtain political risk insurance. Actions in the future of one or more European governments could have a significant effect on the various economies, which could affect market conditions, prices and yields of securities and other obligations.

In addition, the deterioration of the sovereign debt of several Eurozone countries during 2008-2009 raised a number of uncertainties regarding the stability and overall standing of the European Monetary Union. Economic, political or other factors could result in further changes to the composition of the European Monetary Union. The risk that other Eurozone countries could be subject to higher borrowing costs and face further deterioration in their economies, together with the United Kingdom's decision to exit the European Union (as discussed below under *Brexit*) and the risk that Eurozone countries could withdraw from the European Union, could have a negative impact on the Clients' investment activities. A reintroduction of national currencies in one or more Eurozone countries or, in more extreme circumstances, the possible dissolution of the European Monetary Union cannot be ruled out. The departure or risk of departure from the European Monetary Union by one or more Eurozone countries and/or the abandonment of the euro as a currency could have major negative effects on the Clients. If the European Monetary Union is dissolved entirely, the legal and contractual consequences for holders of euro-denominated obligations would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of investments.

**Solvency II.** The European Union directive on the taking-up and pursuit of the business of Insurance and Reinsurance ("**Solvency II**") sets out capital adequacy and risk-management

requirements for European insurers, dictates how much capital such firms must hold against their liabilities and how to undertake a risk-based assessment of those liabilities. This may affect the allocation of investment by insurers. Insurers are also subject to reporting requirements. Although funds and fund managers are not directly subject to Solvency II, it could impose on fund managers extensive reporting obligations for those insurers and reinsurers who are subject to Solvency II that do invest in such funds. Solvency II is also subject to secondary legislation.

**Brexit.** The United Kingdom left the European Union on January 31, 2020. There is now a transitional period until December 31, 2020, during which time the United Kingdom and the European Union have agreed to maintain existing rules and regulations while the United Kingdom and the European Union seek to agree upon the terms of their future relationship, including in relation to trading. The transitional period may be extended for up to two years after December 31, 2020 by agreement between the United Kingdom and the European Union. However, the United Kingdom Government has stated that it will not seek such an extension. There is also no certainty on the terms of any trade deal, or that one will definitely be concluded.

The foregoing political and economic developments could impact a Client and a Client's investments (and their underlying borrowers and issuers) in a variety of ways, not all of which are currently readily apparent. A Client may invest in portfolio investments and other issuers with significant operations and/or assets in the United Kingdom, any of which could be adversely impacted by any new legal, tax or regulatory environment, whether by increased costs or impediments to the implementation of their business plan.

The uncertainty resulting from any such developments, or the possibility of such developments, could cause significant market disruption in the European Union and the United Kingdom and more broadly across the global economy, as well as introduce further legal, tax and regulatory uncertainty in the European Union and the United Kingdom.

**General Risks of Investments Outside of More Developed Economies.** Although the Registrant expects to focus its investment activities in North America and Europe, the Registrant may also make investments in less developed or developing countries, including in emerging markets such as China, India, Brazil, countries located in emerging Europe or other countries. Investments outside of more developed countries involve certain factors not typically associated with investing in those countries, including risks relating to: (i) differences arising from less developed securities markets, including potential price volatility in, and relative illiquidity of, some such securities markets; (ii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements; (iii) less government supervision and regulation in some countries, which may result in lower-quality information being available, less developed compliance culture and less developed corporate laws regarding fiduciary duties and the protection of investors, less developed or tested bankruptcy laws and difficulty in enforcing contractual obligations; (iv) certain economic and political risks, including potential economic,

political or social instability, exchange control regulations, restrictions or limitations on foreign investment, including the structuring of investments, and repatriation of capital (possibly requiring government approval), expropriation or confiscatory taxation and higher rates of inflation and reliance on a more limited number of commodity inputs, service providers and/or distribution mechanisms; (v) potentially material and unpredictable governmental influence on the national and local economies; (vi) risks associated with differing cultural expectations and norms regarding business practices; (vii) fewer or less attractive financing and structuring alternatives and exit strategies; and (viii) the possible imposition of local taxes on income and gains recognized with respect to investments.

In emerging markets, any regulatory supervision that is in place may be subject to manipulation or control. Some emerging market countries do not have mature legal systems comparable to those of more developed countries. Moreover, the process of legal and regulatory reform may not be proceeding at the same pace as market developments, which could result in investment risk, including in relation to enforcement. Legislation to safeguard the rights of private ownership may not yet be in place in certain areas, and there may be the risk of conflict among local, regional and national requirements or authorities. In certain cases, the laws and regulations governing investments in securities may not exist or may be subject to inconsistent or arbitrary application or interpretation. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. The Registrant may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in non-U.S. courts. There can be no assurance that adverse developments with respect to such risks will not adversely affect the securities or assets of the Clients that are held, directly or indirectly, in certain countries.

**Provision of Managerial Assistance.** Clients may obtain rights to participate substantially in and to influence substantially the conduct of the management of the issuers in which the Registrant invests on their behalf. The Registrant may designate directors (and non-executive chairmen) to serve on the boards of directors of issuers. The designation of directors and other measures contemplated could expose the assets of such Clients to claims by an issuer, its security holders and its creditors and create additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability which the limited liability characteristic of business operations usually ignores. If these liabilities were to occur, such Clients could suffer losses in its investments. While the Registrant intends to manage the Clients in a way that will minimize exposure to these risks, the possibility of successful claims cannot be precluded.

**Control Investments.** Control investments bear the risk of liability for environmental damage, product defect, failure to supervise management, violation of governmental regulations and other types of liability, in which the limited liability characteristic of business operations may be ignored. When disposing of these investments, the Clients may

be required to make representations and warranties about the business and financial affairs of the investments typical of those made in connection with the sale of any business, or may be responsible for the contents of disclosure documents under applicable securities law. The Clients may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations and warranties or disclosure documents turn out to be incorrect, inaccurate or misleading. These arrangements may result in contingent liabilities, which will be borne by the Clients.

**Valuation.** The Registrant is responsible for valuing the assets of certain Clients. Such valuation will affect reported Client management and performance-based fees received by the Registrant, as well as reported performance metrics such as rates of return and multiples on invested capital, which calculations depend on the valuation of Client assets. Although the Registrant will be performing its valuation of Client assets pursuant to its Valuation Policy, which generally involves current market price information, there will be investments as to which current or reliable market price information is unavailable, in which event the Registrant has discretion in determining the appropriate means of valuation. For investments for which current or reliable market price information is unavailable, valuation may involve uncertainties and judgmental determinations and are subject to the risk that the information utilized to value assets or to create price models may be incomplete, inaccurate or subject to other error. There can be no assurance that the value assigned to an investment at a certain time will equal the value that such Clients are ultimately able to realize, or that would be realized upon an immediate disposition of the investment. In the event of a cross trade, the price paid by the applicable Client in connection with such trade will be based on the fair value of the applicable securities or obligations as determined by the Registrant in accordance with its then-current Cross Trade Policy.

#### *B. Business Risks*

**Dependence Upon Certain Professionals.** The performance of Clients' investments is significantly dependent upon the expertise of the professionals of the Registrant, and any future unavailability of their services could have an adverse impact on Clients' performance. The senior principals of the Registrant will devote as much of their time to the activities of Clients as they deem necessary and appropriate. The Registrant and its related persons are (subject to legal and fiduciary obligations) not restricted from forming (or allocating investment opportunities to) other Clients, entering into other investment advisory relationships, engaging in other business activities, or making personal investments even though such activities may be in competition with existing Clients and/or may involve substantial time and resources of the Registrant and its related persons. These activities could be viewed as creating a conflict of interest in that the time and effort of the Registrant and its related persons will not be devoted exclusively to the business of any one Client but will be allocated among all Clients as well as such other business activities or personal investment portfolios, particularly when such businesses are active or when the markets are volatile. In addition, there is no assurance that as the Registrant's assets under

management increase, the number of investment professionals and the degree of infrastructure support available to manage those assets will increase accordingly. In addition, the Registrant can offer no assurance that any such investment professionals will contribute effectively to its business or to the work of the Registrant. Further, the termination of employment of any one professional or a team of professionals from the Registrant may have a material adverse effect on the Registrant or one or more Clients. Any failure to manage the Registrant's future growth effectively could have a material adverse effect on its business, financial condition and results of operations. There is no assurance that the activities of the professionals of the Registrant will be adequate or without mistakes. For example, there is no assurance that the due diligence conducted by the investment professionals of the Registrant will reveal all matters and issues, material or otherwise, relating to prospective investments.

**Reliance on the Registrant.** Certain Clients' investments may be structured on terms negotiated by the Registrant. If the Registrant resigns or otherwise no longer serves as the adviser of a Client, such Client's investments may be terminated or may otherwise no longer be available to such Client, which may have an adverse impact on such Client's investment performance. Moreover, subjective decisions made by the Registrant may cause one or more Clients to incur losses or to miss profit opportunities on which it may otherwise have capitalized.

**Business and Regulatory Risks.** The Registrant is part of a larger firm with multiple business lines in multiple jurisdictions that are governed by a multitude of legal systems and regulatory regimes, some of which are new and evolving. As a result, Clients, the Registrant and/or their respective affiliates are subject to a number of unusual risks, including changing laws and regulations, developing interpretations of such laws and regulations, judicial decisions and increased scrutiny by regulators.

For example, in connection with the maintenance of certain mortgage loans, the Registrant is subject to various laws and regulations requiring the maintenance of privacy and security of certain personally identifiable data relating to natural persons in its possession.

The Registrant and certain Clients (or investors therein) are subject to risk retention rules in connection with the issuance of, and investment in, CLOs (including Affiliated CLOs). The regulations require the Registrant and/or an affiliate thereof to make and retain certain investment amounts in Affiliated CLOs (and certain entities can only invest in CLOs that comply with such regulations). If the Registrant is not able to commit enough capital for this purpose, it may affect the Registrant's ability to issue new Affiliated CLOs in the market. These rules are in effect in the European Union. In the United States, the risk retention rules were in effect for CLOs for a limited time only, as on February 9th, 2018, the Court of Appeals of the DC Circuit held that the federal regulators responsible for such rules did not have the authority to require "open-market" CLO managers to comply with the risk retention rules in the United States. The period for appealing this judgment has lapsed. On March 15, 2019, the Japanese Financial Services Agency ("JFSA") published



risk retention rules that came into effect on March 31, 2019 and that focus on the capital regulation of certain Japanese entities that seek to invest in securitizations, such as CLOs, similar to that of the JFSA's original proposal. At this point, the onus is on such investors to increase their due diligence of the assets underlying securitizations and some aspects of the securitizations themselves. As the JFSA is in the very nascent stages of implementing its risk retention regime, it is not yet entirely clear the extent to which these regulations might impact the US CLO market in the long run. For the near future, the added layer of due diligence is expected to be somewhat onerous, but not disruptive.

In addition, the Registrant conducts investment activities in multiple securities markets, which are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, other federal, state and international regulators and self-regulatory organizations and exchanges. These authorities may be authorized to take extraordinary actions in the event of market emergencies. Furthermore, the Registrant may expand its business into jurisdictions that have adopted more stringent requirements than those in which it currently conducts business. In such event, the Registrant may have to incur significant expenses in order to comply or the Registrant may have to restrict its operations. Either approach may adversely affect the ability of the Registrant to pursue its investment strategies and the value of investments held by its Clients. To the extent such regulatory expansion occurs, it may result in scrutiny or claims against the Registrant or its Clients directly for actions taken or not taken by the Registrant or its Clients, or result in ambiguity or conflict among legal or regulatory schemes applicable to their businesses, all of which could adversely affect the investment or trading strategies pursued by such Clients or their investments or the value of such investments.

In general, as a result of the evolving regulatory environment in which the Registrant operates, its Clients and/or their respective affiliates face the continuing risk of pending and potential litigation and regulatory action. These risks are often difficult or impossible to predict, avoid or mitigate in advance. The effect of any such legal risk, litigation or regulatory action on the Registrant or its Clients or their respective affiliates could be substantial and adverse.

**Certain Tax Considerations.** The tax considerations of Clients and their investors are complex. Legal, tax and regulatory changes could occur during the term of a Client which may adversely affect such Client. The investment decisions of the Registrant will be based primarily upon economic, not tax, considerations, and could result, from time to time, in adverse tax consequences to some or all Clients or investors. Interest payments on investments in certain jurisdictions may be subject to withholding taxes and, in some cases, such withholding taxes may be greater than if such investments were held directly by the investors. The Registrant may structure certain of its investment activities on behalf of Clients in a manner as to avoid the attribution of loan origination activities to such Clients. However, the Registrant cannot be assured that the Internal Revenue Service (“IRS”) will share such view, or that those Clients will not be deemed to be engaged in the conduct of a U.S. trade or business. Under such circumstances, some or all of the income to such

Clients could be considered to be effectively connected with the conduct of such trade or business, with result that such investments may result in substantial tax liabilities for certain Clients and/or investors. This risk may be present where, for example, the Registrant buys a newly originated asset in the secondary market (whether via a cross trade or from a third party) but is deemed to have participated in the origination, or where a Client is involved in the restructuring of a private loan investment.

**“FATCA”** shall mean one or more of the following as the context requires: Sections 1471 to 1474 of the Code and any associated legislation, regulations or guidance, commonly referred to as the U.S. Foreign Account Tax Compliance Act, the Common Reporting Standard issued by the Organisation for Economic Cooperation and Development, or similar legislation, regulations or guidance enacted in any other jurisdiction which seeks to implement equivalent tax reporting and/or withholding tax regimes. Under FATCA, clients will be required to comply with an agreement with the IRS or another taxing authority, pursuant to which they will be required to identify and report on certain direct and indirect owners or investors. An investor in a Client could be required to provide to such Client information which identifies its direct and indirect ownership. Any such information provided to a Client may be shared with the IRS or another taxing authority. Investors are deemed to have given their consent to the disclosure of information and agree to provide such other information as is necessary for Clients to comply with these new reporting requirements under FATCA, and such Clients will take such action as they consider necessary to ensure that any such withholding tax is economically borne by the relevant investor whose failure to provide the necessary information gave rise to the withholding tax. A Client may also redeem an investor’s interests or take certain other actions to mitigate the consequences of an investor’s failure to comply with the requirements described above. Prospective Clients and their prospective investors are urged to consult their own tax advisors with respect to the new withholding and reporting regime imposed by FATCA.

**Systems Risks and Cybersecurity Risks.** Clients depend on the Registrant to develop and implement appropriate systems for their activities. The Registrant relies heavily on computer programs and systems (and may rely on new systems and technology in the future) to perform necessary business functions and for various purposes in connection with its activities on behalf of its Clients, including, without limitation, to trade, clear and settle transactions, to evaluate certain financial instruments, to monitor its portfolio and net capital, and to generate risk management and other reports that are critical to oversight of such Clients’ activities. Certain of the Registrant’s and its Clients’ activities will be dependent upon systems operated by third parties, including prime brokers, market counterparties and other service providers, and the Registrant may not be in a position to verify the risks or reliability of such third-party systems. The failure, corruption or breach of one or more systems (including as a result of the occurrence of a disaster such as a cyber-attack, unauthorized access, such as physical and electronic break-ins, unauthorized tampering or unauthorized access to sensitive information (including, without limitation, to information regarding Clients and their investment activities), rendering data systems

unusable, a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in the Registrant's disaster recovery systems, or a support failure from external providers) or the inability of such systems to satisfy a Client's needs, including, without limitation, the execution of orders, could result in significant losses and have a material adverse effect on the Registrant's ability to conduct business and on its operations and financial condition, particularly if those events affect the Registrant's computer-based data processing, transmission, storage and retrieval systems or destroy the Registrant's data. If a significant number of the Registrant's personnel were to be unable to access its systems in the event of a disaster, the Registrant's ability to effectively conduct its business could be severely compromised. The above considerations also apply to the portfolio companies in which the Registrant invests on behalf of Clients and other counterparties with which the Registrant and Clients conduct investment activities.

Like other companies, the Registrant may experience threats to its data and systems, including through malware and computer virus attacks, unauthorized access, system failures and disruptions. Third parties may also attempt to fraudulently induce employees, Clients, third-party service providers or other users of the Registrant's systems to disclose sensitive information in order to gain access to Registrant's data or that of its Clients. In addition, sensitive information may be compromised due to Employee conduct, which may include mistakes, carelessness or fraud. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, the Registrant's computer systems and networks, which could lead to or cause (i) losses of sensitive information or capabilities essential to the Registrant's operations, (ii) the disclosure of investors' personal information and/or (iii) interruptions or malfunctions in the Registrant's or its Clients' operations, which could all result in damage to their reputation, financial losses, potential liability, litigation, remedial actions, loss of business, increased costs, regulatory penalties and/or customer dissatisfaction or loss and could have a material effect on the Registrant or its Clients. Any such breach could expose the Registrant and its Clients to civil liability as well as regulatory inquiry and/or action. Investors could also be exposed to losses resulting from unauthorized use or dissemination of their personal information. In any such instance, the Registrant will determine, in its discretion, whether any breach has resulted in an information security incident and whether such incident requires disclosure to regulators, governments and/or investors. In some cases, determinations will need to be made in the absence of certainty around all facts. Certain jurisdictions mandate prescriptive notice in the event of certain loss of or threat to personal information. Any statutory or contractual restrictions or mandates may limit the Registrant's ability to undertake breach mitigation and remediation steps in the manner that the Registrant would otherwise consider optimal.

Cybersecurity attacks are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. The Registrant's controls and procedures, business continuity systems and data security systems could prove to be

inadequate. These problems may arise in the Registrant's internally developed systems and the systems of third-party service providers, including prime brokers, administrators, market counterparties and other service providers.

**Reliance on Proprietary Systems and Technology.** The Registrant expects to leverage certain proprietary systems, databases and technology in evaluating potential investments for Clients and in the operations of the Registrant's business, including, without limitation, OHA Pulse (the Registrant's proprietary corporate credit analytics platform) and the Registrant's proprietary CLO analytics platform (collectively, the "**Proprietary Systems**"). While the Registrant believes that the Proprietary Systems can enhance its investment and operational process, the use of the Proprietary Systems also exposes a Client to certain risks. Some Proprietary Systems rely in part on data that is supplied by external sources, and the Registrant may not be in a position to verify the risks or reliability of such third-party supplied data (and such third-party data may contain errors). Additionally, the Proprietary Systems have not been independently evaluated or tested and, as such, may contain coding or other errors and may be less reliable or accurate than systems or technology provided by a third-party vendor. Furthermore, any competitive advantage provided by the Proprietary Systems, including in identifying and evaluating prospective investments, is subjective and difficult to quantify. Some of the Registrant's competitors may have similar systems and technology or systems and technology that are superior to the Proprietary Systems. No technology or system, including the Proprietary Systems, can ensure that a Client will identify profitable investments or avoid incurring substantial losses and the Registrant anticipates that certain Client investments will incur losses notwithstanding the use of the Proprietary Systems. See also *Systems Risks and Cybersecurity Risks*.

**Electronic Communications.** The Registrant, on behalf of its Clients, will provide to each investor the Registrant's Form ADV Part 2A and Part 2B and the statements, reports and other communications relating to the Client in which such investor has invested, and/or such investor's interest in such Client, in electronic form such as email or via a password protected website ("**Electronic Communications**"). Electronic Communications may be modified, corrupted or contain viruses or malicious code, and may not be compatible with an investor's electronic system. In addition, reliance on Electronic Communications involves the risk of inaccessibility, power outages or slowdowns for a variety of reasons. These periods of inaccessibility may delay or prevent receipt of reports or other information by an investor.

**Investing on Behalf of Multiple Clients.** The Registrant invests on behalf of multiple Clients. As a result, the Registrant may effect transactions for one Client that differ from the transactions effected for another Client with respect to the same issuer, potentially at different times and on different terms. Where the Registrant invests on behalf of multiple Clients in the same debt or equity security or other debt obligation, one Client may not be able to sell its position in that security or obligation at a time that may be the most advantageous to that Client to do so, as the investment is managed by the Registrant not

only on behalf of such Client, but on behalf of all of the Clients on whose behalf the Registrant manages such investment. The Registrant may also trade in certain debt or equity securities or other debt instruments of a particular issuer for one Client while investing in a different part of the same issuer's capital structure, or in different tranches of debt for another Client, and, in either case, potentially at different times and at different terms. This may create conflicts of interest, for example, because in the context of financial stress or distress of the issuer, or the restructuring or reorganization of the issuer, the Registrant may pursue actions for one or more Clients that may have an adverse effect on another Client. In CLO investments, conflicts of interest may arise where one Client invests in the equity tranche of a CLO while another Client invests in the debt tranche of the same CLO, and holders of the equity tranche exercise a refinance or call right in the CLO without regard to any adverse effect on Clients that are holders of the debt tranche. Further, if the Registrant becomes a member of a creditors' committee in connection with certain loan positions held by Clients, it may be restricted from trading securities of the same issuer for other Clients.

In instances where conflicts of interest among multiple Clients arise, the Registrant will seek to act in a manner it reasonably believes to be equitable to all Clients involved under the circumstances. There can be no assurance that the term of or the return on a Client's investment will be equivalent to or better than the term of or the returns obtained by other Clients participating in the same issuer. There may be a loss or substantial dilution of one Client's investment, while another Client recovers all or part of amounts due to it. Similarly, the Registrant's ability to implement one or more Clients' strategies effectively may be limited to the extent that contractual obligations entered into in respect of the activities of another Client impose restrictions. When the Registrant trades on behalf of one Client ahead of, or contemporaneously with, an investment on behalf of another Client, market impact, liquidity constraints, or other factors could result in one Client receiving less favorable pricing or trading results, paying higher transaction costs, or otherwise being disadvantaged. The Registrant may also pursue or enforce on behalf of one Client rights or actions with respect to a particular issuer in which another Client is invested, even though such action or inaction could materially adversely affect such other Client. The liquidation of one Client may impact other Clients, for example, if the liquidating Client liquidates a position that other Clients continue to hold, particularly if the sale takes the Registrant's aggregate Clients' holdings from a majority position to a minority position, or below another control or influential position level. In addition, in certain cases, an investor in a commingled fund may have specific investment limitations which may impact the Registrant's decisions for the commingled fund Client. The Registrant may provide Clients and/or investors with consent rights over specific investments. If the veto right affects the aggregate potential capital available for such investments such that the Registrant does not believe it is appropriate to proceed with the investment, then the other Clients and investors who did not exercise a veto right would not participate in such investment opportunities.

**Originating-Focused Clients.** From time to time, the Registrant may effect a cross trade where it sells or buys a security or obligation that was originated by one or more Clients.

In the event of such a cross trade in respect of an originated investment, the price paid by the applicable purchasing Client(s) in connection with such cross trade will be based on the then-fair market value of the applicable securities or obligations as determined by the Registrant in accordance with its then-current Cross Trade Policy, and then, as the Registrant determines to be appropriate in its discretion, will generally be reviewed by a third-party valuation consultant and confirmed to be reasonable.

The Registrant will face a conflict of interest in the valuation of any securities or obligations that will be subject to such cross trade, where the advisory fee or performance-based fee terms in the selling Client(s) are preferential to the advisory fee or performance-based fee terms in the governing documents of the purchasing Client(s), or vice versa. In addition, a heightened conflict of interest exists in circumstances where a Client's investment strategy is or includes originating securities or obligations and then selling such securities or obligations primarily to other Clients (as well as third-party purchasers) (such Client, an **"Originating-Focused Client"**), and, accordingly, such Originating-Focused Client (and its investment strategy) may, at least in part, be dependent on the existence and ability of other Clients (or third-party purchasers) to purchase such securities or obligations from such Originating-Focused Client. The Registrant will be incentivized to sell a security or obligation originated by an Originating-Focused Client to other Clients at a price that is no less than the fair market value at the time of origination.

Certain investors of a Client (such as investors in the "onshore feeder" of such Client) purchasing in such a cross trade would, from an economic and tax perspective, have preferred to participate directly in such security or obligation alongside such other Clients that originated such security or obligation, but for administrative, tax and/or other considerations as determined by the Registrant in its discretion (including tax considerations applicable only to the non-U.S. investors of such Client), such investors purchased such security or obligation from the originating Clients. By purchasing such security or obligation from the originating Clients, such Client would be unable to obtain the benefit of certain origination and/or other fees and/or compensation that would have been paid to the originating Clients in connection with the origination of such security or obligation. In addition, a Client may originate a security or obligation alongside one or more other originating Clients and then subsequently purchase additional amounts of such security or obligation from one or more other Clients, including from Originating-Focused Clients. In such cases, such Client would have preferred to have initially originated a larger position of such security or obligation since such Client will not receive any origination and/or other fees and/or compensation in connection with any portion of such security or obligation that is purchased from the other originating Clients (including the Originating-Focused Clients). In addition, it is likely that such Client will purchase such security or obligation at a higher price than such Client would have paid as of the initial origination of such security or obligation. Finally, where it manages Originating-Focused Clients, the Registrant will face a conflict of interest and have an incentive (i) to allocate an Originated Focused Client its full amount of an originated security or obligation (even if a portion of such amount could subsequently be sold to another Client that also participated in the initial

origination of such security or obligation), rather than initially allocate a larger portion of such security or obligation to such other Client, and (ii) to cause a Client that originated a security or obligation alongside an Originating-Focused Client to subsequently purchase an additional amount of such security or obligation from such Originating-Focused Client rather than purchase a similar security or obligation (or even a better priced security or obligation) from a third-party seller in order to allow such Originating-Focused Client to sell its originated position. Nonetheless, the Registrant will not recommend such cross trade if the Registrant determines that such transactions are not in the best interest of all the relevant Clients at the time that the transaction is contemplated or if such transactions are not approved by an applicable Client's advisory board or equivalent. During the time that the investment is held solely by the originating Client, such Client assumes all downside risk, costs and expenses associated with such investment, including the risk that the investment will default and will result in a loss of invested capital, as well as the risk that such cross trade will not be effected in the timeframe contemplated. Origination expenses incurred in connection with positions allocated to Originating-Focused Clients are generally expected to be borne by the Clients that participated at the time of origination.

This strategy incentivizes the Registrant to effect such cross trades at a price that is no less than the fair market value at the time of origination. In addition, the Registrant may be able to influence the decision by the borrower of how to allocate origination benefits between origination fees, which are typically retained by the originating buyer, and original issue discounts, which typically travel to any new buyers. The Registrant may be incentivized to maximize origination fees in order to ensure a profit to the originating Client. Nonetheless, the origination trades and any subsequent cross trades are conducted at the fair market value at the time of the trade. See in *Brokerage Practices – B. Cross Trades*.

**Related Clients.** The Registrant may invest on behalf of one Client in a manner that is similar (or in some cases, substantially similar) to the investment programs of certain other Clients (such Clients, the “**Related Clients**”). As such, Related Clients may co-invest with, or at times, invest on a side-by-side basis with, one another. However, there are, or may be, differences among the Related Clients with respect to factors as permitted under the Trade Allocation Policies and Procedures which, as applicable, will cause variation among the investment portfolios of the Related Clients and in the allocation of investment opportunities among the Related Clients. Given the foregoing, there may be circumstances where (i) only some of the Related Clients participate in parallel investment transactions; (ii) the level of participation by Related Clients in parallel investment transactions is not on a pro rata basis; (iii) the terms of parallel investment transactions vary between and among Related Clients; (iv) Related Clients effectively engage in opposite transactions with respect to a particular investment (e.g., one Related Client buys an investment and another sells the same investment and/or one Related Client takes a “long” position in an investment and another takes a “short position” with respect to the same investment); and/or (v) investment transactions between and among Related Clients vary in other respects. Such non-parallel and/or non-*pro rata* investment transactions between or among Related Clients will be made at the discretion of the Registrant including, without

limitation, when deemed (1) appropriate because of the differences between the Related Clients involved (or the terms applicable to such Related Clients) and/or (2) otherwise to be in the interests of the Related Clients involved. In addition, there may be circumstances where Related Clients participate in the same investment, but one Related Client does not enter into certain hedging transactions entered into by another with respect to such investment.

In addition, Related Clients are, or may be, subject to terms that differ from one another, which may include, without limitation, terms relating to fee reductions, expenses, portfolio transparency and/or liquidity. For example, one or more Related Clients may receive more detailed portfolio information or information on a more frequent basis and/or have rights to redeem or withdraw with shorter prior notice periods, in each case, than another Related Client. Any such different and/or preferential terms could have an adverse impact on a Client's investments and/or the value of its interests.

**Material Non-Public Information.** From time to time, the Registrant may receive material non-public information. Any of the members of the Registrant's investment team may serve as an officer, director, advisor or in comparable management functions for portfolio companies in which a Client invests, and any employee of the Registrant may obtain material non-public information in connection therewith, or in connection with such person's other activities in the financial markets or otherwise. The Registrant generally operates without information barriers to separate persons who make investment decisions from others who might possess material non-public information that could influence such decisions. In an effort to manage possible risks arising from the Registrant's decision not to implement such screens, the Registrant maintains a list of restricted securities with respect to which the Registrant may have access to material non-public information and in which Clients are restricted from trading. The Registrant's ability to implement one or more Clients' strategies effectively may be limited to the extent that trading is restricted due to material non-public information. If employees of the Registrant obtain material non-public information about an issuer, the Clients may be prohibited, by law, policy or contract, for a period of time, from (i) unwinding a position in such issuer (including in the context of a liquidating Client), (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer, which could impact the returns generated for such Clients. In some cases, material non-public information may be obtained deliberately, in the context of specific Client investments, and the subsequent restriction on trading may apply also to Clients who did not participate in such investments. For example, if the Registrant obtains material non-public information with respect to certain loan positions held by Clients, it may be restricted from trading securities of the same issuer for other Clients.

**Information Barriers.** From time to time, the Registrant may arrange a limited purpose information barrier with respect to one or more issuers. The Registrant uses a limited purpose multi-issuer information barrier in connection with certain private credit investments for various purposes, including the examples set out herein. For example, one



purpose of an information barrier is to retain material non-public information on one side of the information barrier but to allow for public trading on the other side of the barrier. Another purpose is to enable independent investment decision-making across Clients or across an issuer's capital structure where there is a conflict of interest. Another purpose is to enable the Registrant to work with one or more potential bidders in an acquisition financing opportunity, in order to enhance the likelihood of working with the winning bidder. If an issuer is subject to an information barrier, the investment professionals on one side of the barrier will be limited in their ability to leverage the expertise of the investment professionals on the other side of the barrier with respect to such issuer. If information is inadvertently crossed over an information barrier, the Clients may be prohibited or restricted, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, (iii) pursuing other investment opportunities related to such issuer, and/or (iv) engaging in negotiations or structuring discussions, any of which could impact the returns generated for such Clients.

**Board Participation/Conflicts of Interest.** The Registrant's partners and employees may serve as directors of certain issuers. They will owe duties to the shareholders of the issuers and persons other than the Clients. In general, such positions are often important to the Registrant's investment strategy and may enhance the ability of the Registrant to manage the investments. However, such positions may have the effect of impairing the ability to sell the related securities when, and upon the terms, the Registrant may otherwise desire. In addition, such positions may place the Registrant's partners and employees in a position where they must make a decision that is more advantageous to the shareholders of the issuer than to Clients, or vice versa. Should a partner or employee of the Registrant make a decision that is more advantageous to Clients than to the shareholders of an issuer, such decision may subject the Registrant and the relevant Clients to claims they would not otherwise be subject to as an investor, including claims of breach of the duty of loyalty, securities claims and other director-related claims.

The Registrant and/or its related persons may determine to engage in special purpose acquisition company ("SPAC") business activities, that is, investing in private equity for the purpose of taking an issuer public. This business activity may provide synergistic benefits to Clients if debt acquisition financing opportunities are extended to the Clients that would not otherwise be available. This business activity may result in the diversion of Registrant resources to such business activities and away from Client investment advisory services. This business activity may also result in a situation where the Registrant and/or its related persons and the Clients are both invested in different parts of the capital structure of the same company. In addition, the Registrant and/or its related persons serve as directors of certain such SPACs. The Registrant may determine to implement a limited purpose information barrier or take other steps as it deems appropriate to manage any related conflicts, if they arise.

**Difficulty of Locating Suitable Investments.** There can be no assurance that there will be a sufficient number of suitable investment opportunities that the Registrant will be able to identify to enable Clients to invest in opportunities that satisfy Clients' investment objectives or that such investment opportunities will lead to completed investments by Clients. The activity of identifying, completing and realizing an attractive investment opportunity is highly competitive and involves a high degree of uncertainty. The Registrant and its Clients will compete for the acquisition of investments with many other investors, some of which are substantially larger and have considerably greater financial, technical and marketing resources than the Registrant and its Clients. For example, some investors may have a lower cost of funds and access to funding sources that are not available to the Registrant and its Clients. In addition, some investors may have higher risk tolerances or different risk assessments than the Clients do, which could allow them to consider a wider variety of investments and establish more portfolio relationships than the Registrant and its Clients. Such competitors may include other private investment funds and BDCs, as well as individuals, financial institutions and other institutional investors. In addition, the availability of investment opportunities generally will be subject to market conditions, as well as, in some cases, the prevailing regulatory or political climate. The Registrant may lose investment opportunities if it does not match its competitors' pricing, terms and structure. However, if the Registrant matches its competitors' pricing, terms and structure, it may experience decreased net investment income and increased risk of credit loss. As a result, the Registrant may not be able to take advantage of attractive investment opportunities from time to time.

**Misconduct or Mistakes of Employees, Consultants and Third-Party Service Providers.** Misconduct or mistakes by employees, consultants or third-party service providers of the Registrant and/or its affiliates, could cause significant losses to the Clients. For example, trade execution may result in errors and miscommunications with brokers and counterparties, and could result in losses to the Clients. Such misconduct or mistakes may include binding Clients to transactions that exceed authorized limits or present unacceptable risks, unauthorized trading activities, or concealing unsuccessful trading activities (which, in each case, may result in unknown and unmanaged risks or losses). Losses could also result from actions by third-party service providers, including failing to recognize trades and misappropriating assets. In addition, employees, consultants and third-party service providers may improperly use or disclose confidential information, which could result in litigation or serious financial harm, including limiting Clients' business prospects or future marketing activities. In each such circumstance, the Registrant will evaluate the merits of potential claims for damage against any providers who are at fault and, to the extent practicable, will seek to recover losses from those parties. The Registrant will also evaluate the merits of a potential insurance claim. In its discretion, the Registrant may choose to forgo pursuing claims against providers on behalf of the Clients or claims under an insurance policy for any reason, including, without limitation, the cost of pursuing claims relative to the likely amount of any recovery and the maintenance of its business relationships with such providers. The Registrant does not exercise supervision over third-party service providers. Service providers are selected at

the Registrant's sole discretion. The Registrant and/or its employees may have other relationships with service providers. For example, a service provider or its employees may be investors or Clients of the Registrant. No assurances can be given that the Registrant will be able to identify or prevent any misconduct or mistake.

**Adverse Effects of Negative Publicity.** Press coverage and other public statements that assert some form of wrongdoing, regardless of the factual basis for the assertions being made, may result in some type of investigation by regulators, legislators and law enforcement officials or in lawsuits. If the Registrant were to be subject to such press coverage or other statements, with resulting investigations or lawsuits, responding to such proceedings, regardless of the ultimate outcome of the proceeding, would be time consuming and expensive and could divert the time and effort of the Registrant's investment professionals. Adverse publicity could also have a negative impact on the Registrant's reputation and on the morale and performance of the Registrant's investment professionals, which could in turn adversely affect the performance of Clients' investments.

**Counterparty Risk.** The Registrant may effect transactions where the counterparties are not regulated broker-dealers. Examples of such transactions may include, without limitation, privately-sponsored transactions and private loans. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. This exposes the Clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Clients to suffer a loss. The lack of a meaningful and independent regulator of such counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Clients. In addition, the Clients may transact with counterparties located in various jurisdictions outside the United States. Such local counterparties are subject to the insolvency laws and regulations in the local jurisdictions.

**Reliance on Third-Party Company Management.** The Registrant is not responsible for the day-to-day operations of each portfolio investment in which the Clients invest. The issuer's management team may have interests which may at times conflict with the interests of the Clients. Although the Registrant generally intends to invest in companies operated by strong management, there can be no assurance that the existing management team of any portfolio investment, or any successor thereto, will be able to operate the issuer in accordance with the Clients' expectations.

**Enhanced Scrutiny and Regulations of Private Fund Advisers.** Enhanced oversight and regulation by various governmental bodies is creating enhanced compliance risks. Many regulators, including governmental agencies and self-regulatory organizations, are empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease

and desist orders or the suspension or expulsion of applicable licenses or members. Even if an investigation or proceeding did not result in a sanction against the Registrant or its Clients, or if it were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm the Registrant or the Clients' reputations, which may adversely affect the Clients' ability to obtain favorable financing or consummate potentially profitable investments. Additional global legislative and regulatory action is possible. Such risks are often difficult or impossible to predict, avoid or mitigate in advance. Any changes in the regulatory framework applicable to the Registrant or the Clients may impose additional expenses, require the attention of senior management, or result in limitations in the manner in which the investment business is conducted. Additional regulation could also increase the risk of third-party litigation. It is anticipated that, in the normal course of business, the Registrant will have contact with regulators, governmental authorities and/or may be subjected to responding to inquiries or examinations.

**ERISA.** Clients that constitute "plan assets" within the meaning of the plan asset regulations set forth in 29 C.F.R. Section 2510.3-101 as promulgated under the U.S. Employee Retirement Income Security Act of 1974 (as amended, "**ERISA**") (and therefore are subject to ERISA's fiduciary obligations and prohibited transaction rules) will be subject to significant investment limitations and restrictions that will not be applicable to other Clients. Additionally, due to ERISA considerations, the Registrant may elect not to allocate an investment opportunity in an issuer to an ERISA Client, notwithstanding that such investment opportunity might otherwise be appropriate and permissible for such ERISA Client, if, for example, other Clients are invested (or plan to invest) in a different part of such issuer's capital structure, which could result in a potential (or actual) conflict of interest for the Registrant in the event of a restructuring of such issuer, as further described under *Investing on Behalf of Multiple Clients* above.

**ERISA Controlled Group Liability.** Under ERISA, all members and/or entities of a group of commonly controlled trades or businesses would under certain circumstances be jointly and severally liable for each other's obligations in respect of any defined benefit pension plans maintained by an entity in the controlled group or to which such entity is obligated to contribute. These obligations include, without limitation, the obligation to make required pension contributions, the obligation to fund any deficit amount upon pension plan termination and the obligation to pay withdrawal liability owed to a multi-employer pension plan to which an entity in the controlled group makes contributions if such entity withdraws from an underfunded multi-employer pension plan. A 2013 U.S. Federal Appeals court decision found that certain supervisory and portfolio management activities of a private equity fund could cause a fund to be considered to be engaged in a "trade or business" for ERISA purposes, and therefore, liable for withdrawal liability owed by a fund's portfolio company to an underfunded multi-employer pension plan which covered the employees of the portfolio company. In November 2019, a federal appellate court in the First Circuit unanimously reversed a lower court's earlier decision (which was premised on the 2013 U.S. Federal Appeals court decision) that held that two separate

private equity funds managed by the same or affiliated investment advisors and found to be engaged in a “trade or business” for ERISA purposes are a controlled group member, and therefore, could be held jointly and severally liable for a bankrupt portfolio company’s multi-employer pension plan withdrawal liability. While the November 2019 decision was a victory for the private equity firm in that particular case, the result was highly fact specific and the First Circuit left open the possibility that under certain circumstances clients managed by the same investment Registrant could be considered to be a controlled group member and engaged in a “trade or business” for ERISA pension liability purposes. Accordingly, if a Client, on its own or along with one or more other Clients, holds any control type investment in a portfolio company and if a Client and (as applicable) such other Clients are found to be engaged in a “trade or business” for ERISA purposes, then a Client and (as applicable) such other Clients could be held liable (including on a joint and several basis) for the defined benefit or multi-employer pension obligations of such portfolio company. If the foregoing were to occur, a Client may incur substantial expenses as a result of such liabilities which could, in turn, result in significant losses to a Client and its limited partners.

**Service Providers.** Certain advisors and other service providers, or their affiliates (including accountants, administrators, lenders, bankers, brokers, attorneys, consultants and investment or commercial banking firms), to Clients may also provide goods or services to, or have business, personal, political, financial or other relationships with, the Registrant. Such advisors and service providers may be investors in the Registrant’s Clients, may be sources of investment opportunities for the Registrant or may otherwise be co-investors with or counterparties to transactions involving the foregoing. These relationships may influence the Registrant in deciding whether to select or recommend any such advisor or service provider to perform services (the cost of which will generally be borne directly or indirectly by the Clients, as applicable). If a service provider provides services to one or more Clients as well as the Registrant, and the Registrant has a performance issue in performing under its own contract, this may negatively impact the service provider’s willingness to continue to provide services to the Clients on the same terms. Notwithstanding the foregoing, the Registrant will generally seek to engage advisors and service providers on the basis of the overall quality of advice and other services provided.

## **Disciplinary Information**

The Registrant and its management persons have not been involved in any legal or disciplinary events in the past 10 years that the Registrant believes would be material to a Client’s or a prospective client’s evaluation of the Registrant’s advisory business or the integrity of its management or its management persons.

## **Other Financial Industry Activities and Affiliations**

From time to time, certain of the Registrant's employees may serve on various creditor committees or as directors of privately held or publicly traded companies in which Clients invest. Clients should be aware of the fact that receipt of material non-public information, whether through such positions or otherwise, could preclude the Registrant from effecting discretionary transactions on behalf of Clients in certain securities.

The Registrant's investment adviser affiliates include Oak Hill Special Opportunities Management, LLC ("**OHSOM**"). OHSOM is a joint venture management company formed in 2002 by the Registrant and Oak Hill Capital Management, LLC, an unaffiliated investment adviser, to provide investment advisory services for investments in financially distressed companies to certain private investment funds. These funds have concluded their investment period according to their terms. Additional affiliated investment advisors are set out in Part 1A of the Registrant's Form ADV.

For purposes of the Advisers Act, the Registrant exercises supervision and control over, and takes responsibility for the investment advice given by, its affiliates, and the Registrant considers all such affiliates' clients to be Clients. Notwithstanding the foregoing, OHSOM is jointly supervised by the Registrant and Oak Hill Capital Management, LLC, which is not an affiliate of the Registrant.

WSI OHA (H), LLC and WSI OHA (S), LLC, investment vehicles ultimately controlled by investment funds managed by Wafra Investment Advisory Group, Inc., are limited partners in the Registrant.

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

The Registrant and/or related persons have multiple advisory, transactional, financial and other interests that may conflict with those of its Clients (and the investors therein). For example, the Registrant or an affiliate thereof may, subject to legal and fiduciary obligations, sponsor, form or manage additional investment vehicles in the future to pursue particular investment opportunities. The Registrant and/or its affiliates are not restricted from allocating investment opportunities to or forming other Clients. The Registrant and related persons are not restricted from engaging in other business activities. These activities may be in competition with existing Clients and/or may involve substantial time and resources of the Registrant and/or related persons. For each Client, there can be no assurance that the Registrant and/or its affiliates will resolve all conflicts of interest in a manner that is favorable to such Client.

Although neither the Registrant nor its affiliates are engaged by a Client to advise them as to the appropriateness of investing in future investment vehicles managed or sponsored by

the Registrant, because of the Registrant's or its affiliates' relationship to those investment vehicles, should a Client invest, the Registrant could be considered, indirectly, to have recommended that investment to such Client.

The Registrant and/or related persons may own securities or obligations issued by companies in which Clients are invested or in which they hold directorships. In that circumstance, conflicts may arise, as described in *Board Participation/Conflicts of Interest*. The Registrant may cause Clients to invest in a security or an issuer (e.g., a pooled investment vehicle) in which the Registrant and/or related persons has a direct or indirect economic interest. In making such a decision, the Registrant may have been incentivized to cause Clients to invest in such security or issuer partially because of such direct or indirect economic interest therein. In addition, the Registrant and/or a related person may from time to time hold direct or indirect economic interests in companies (1) to whom the Registrant and/or its affiliates direct work for the benefit of one or more Clients, and for which the expense is payable by one or more Clients, (2) that are investors in a Client, and/or (3) that make investments that are within the investment mandates of the Registrant's Clients. The Registrant manages any potential conflicts of interest. In addition, a related person of the Registrant currently holds interests in SPACs, which may conduct acquisition-related financing activities in which the Client may participate.

Certain of the related persons of the Registrant may hold interests in investment vehicles, including vehicles associated with Other Oak Hill Entities or Wafra Investment Advisory Group, Inc. From time to time, the Registrant may recommend or cause a Client to invest in an issuer that is related to such entities and/or which has a representative of the Other Oak Hill Entities (or their affiliates) or Wafra Investment Advisory Group, Inc. serving as an officer, director or advisor (or in a comparable position), or in a security made available to the Registrant by such entities. On occasion, the Registrant may be offered the opportunity to make such investments for Clients at a discount. Clients will not have the right (such as a right of first refusal) to participate in any investment opportunity presented by or to or available to the Other Oak Hill Entities or Wafra Investment Advisory Group, Inc.

The Registrant or a related person may purchase a security or other instruments issued by the same issuer as that held by a Client or recommended by the Registrant through a co-investment vehicle.

In addition, where the Registrant and/or a related person serves as the general partner and/or investment advisor of a Client, the Registrant may be considered to be participating in transactions effected for those Clients. In connection with the risk retention rules, the Registrant and/or an affiliate thereof may be required to invest in and retain certain investment amounts in Affiliated CLOs, or to originate loan obligations for the benefit of Affiliated CLOs. The Registrant is not required to comply with these requirements with respect to its management of open-market CLOs in the United States, due to an appellate

court ruling discussed above. See *Methods of Analysis – Risk of Loss – Business Risks – Business and Regulatory* herein for more information.

The Registrant has adopted a Code of Ethics and Personal Trading Policy. Among other things, this policy requires that employees act with integrity, place the interests of Clients above their own, disclose and mitigate actual and potential conflicts of interest and comply with applicable provisions of relevant securities laws. This policy also requires employees to pre-clear outside business activities, pre-clear certain personal securities transactions, report certain personal securities transactions on at least a quarterly basis and provide the Registrant with a detailed summary of certain holdings annually.

A copy of the Registrant's Code of Ethics and Personal Trading Policy shall be provided to any Client or qualified prospective client or investor upon request.

## **Brokerage Practices**

### *A. Best Execution*

The Registrant's selection of a broker-dealer to execute Client transactions is based primarily upon a broker-dealer's ability to deliver best execution for the Registrant's Clients for the relevant transactions. Factors that the Registrant may use in selecting a broker-dealer include the price per unit of the security or other instrument, a broker-dealer's execution capabilities, commission rates, the value of advice and research reports, a broker-dealer's ability to deliver prompt, accurate confirmations and on-time delivery of securities or other instruments, a broker-dealer's ability to maintain confidentiality of the Registrant's trading intentions, and any other factors that the Registrant determines to be relevant and appropriate. The commissions or transaction costs (including spreads) charged by any broker-dealer may be greater than the amount another firm might charge if the Registrant determines in good faith that the amount of such commission is reasonable in relation to the value of the brokerage services and research information provided by the broker-dealer.

### *1. Soft Dollars*

The Registrant does not have any third-party soft dollar arrangements. In addition, while the Registrant receives advice and research reports from broker-dealers who may execute portfolio transactions, it generally does not accrue or allocate any soft dollars for bundled research. This research may be used to service one or more of the Registrant's Clients. Research or brokerage services may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities or other instruments, online quotations, news and research services, access to an electronic communication network for order entry and account information, participation in broker-dealer sponsored research conferences and other services providing lawful and appropriate



assistance to the Registrant in the performance of its investment decision-making responsibilities on behalf of its Clients. If a particular broker-dealer's research contributed to the investment research process, transactions may be directed to such broker-dealer, assuming such broker-dealer meets the aforementioned criteria. The Registrant does not formally commit to provide any particular level of commissions (or markups or markdowns) to broker-dealers who provide research services. The Registrant understands that the benefits received through its relationship with broker-dealers generally do not depend upon the amount of transactions directed to, or the amount of assets custodied by, such broker-dealers. Nonetheless, receipt of research or other products or services may create an incentive for the Registrant to select or direct more business to particular broker-dealers. However, the Registrant will execute trades in accordance with the best execution principles outlined above. For the avoidance of doubt, the Registrant does arrange for non-soft dollar payments for research and brokerage services. The Registrant also pays certain broker-dealers for research services provided, including in connection with compliance with the MiFID II in Europe.

## *2. Brokerage for Client Referrals*

The Registrant may effect transactions or otherwise utilize broker-dealers that have, or whose affiliates have, referred or recommended investors to it (including via capital introduction programs) and broker-dealers or registered representatives of broker-dealers that personally or through related persons or family members have investments in funds managed by the Registrant. The foregoing may create an incentive for the Registrant to direct more business to these broker-dealers in order to generate future referrals or additional affiliated investments. However, the Registrant will execute trades in accordance with the best execution principles outlined above.

## *3. Directed Brokerage*

The Registrant does not routinely recommend, request or require that Clients direct the Registrant to execute transactions through a specified broker-dealer. A separately managed account Client may seek to direct the brokerage or direct the terms of the trade for one or more trades for such account. In such a situation, the Registrant may be unable to achieve most favorable execution of the trades, with respect to the commissions (or spreads) or execution price.

### *B. Cross Trades*

From time to time, securities or other obligations to be sold on behalf of one or more Clients may be suitable for purchase by other Clients. In such circumstances, if the Registrant determines, in good faith, that the transaction is in the best interest of each participating Client, the securities or other obligations may be transferred between such Clients at the then-fair market value (a “**cross trade**”). The Registrant will not receive a commission (directly or indirectly) in connection with a cross trade.

The Registrant will generally not execute cross trades through a broker-dealer; however, in the instances when a broker-dealer is used, the Registrant seeks to ensure that the compensation paid to the broker-dealer to execute these types of transactions is reasonable and commensurate with the level of services being provided. Notwithstanding the foregoing, two or more separately managed account Clients may specifically direct the execution of one or more specific cross trades between such accounts, where such Clients are represented by a single entity in their interactions with the Registrant.

Cross trades do not require Client consent, unless otherwise set forth in the Client investment advisory agreements and other constituent documents, as applicable. The Registrant may, in its discretion, designate for a Client an advisory committee (if applicable) or one or more third-party persons (each, a “**Third-Party Monitor**”) to consider and approve or disapprove, to the extent required by applicable law or deemed advisable by the Registrant at that time, certain related-party transactions and certain other transactions and matters involving potential conflicts of interest that the Registrant deems to be material. Such Third-Party Monitors may approve of any such transactions prior to or contemporaneously with, or ratify such transactions subsequent to, the consummation of such transactions, and the Clients and their investors will be bound by their decisions. The Third-Party Monitors may be exculpated and indemnified by the Clients and their expenses may be reimbursed by the Clients, in each case, subject to the investment advisory agreements and other constituent documents, as applicable. See also *Originating-Focused Clients*.

To the extent permitted by law and applicable client governing documents, the Registrant may purchase investments from and/or sell investments to a Client while acting as principal for its own account. Such transactions present a conflict of interest in that the Registrant is incentivized to act in the best interest of its own account in connection with such transactions. Prior to the execution of a principal transaction, the Registrant will make disclosure of all relevant conflicts of interest and other facts material to an evaluation of the proposed transaction to the relevant Client and will obtain such Client’s written consent in accordance with the applicable client governing documents. Such consent may be revoked at any time prior to the settlement of the transaction.

### *C. Bunched Orders and Trade Allocation*

Aggregation refers to the aggregation of orders for different Clients for the same security and on the same terms (such as pricing or timing). Portfolio Managers may decide to aggregate orders as they consider appropriate. Orders for the same security or obligation entered on behalf of more than one eligible Client will generally be aggregated. Aggregating orders across Clients could, among other adverse consequences, affect the prices of and the availability of the securities or other obligations in which any Client invests. Generally, all Clients participating in each aggregated trade shall receive the average price and, subject to minimum ticket charges (if any), pay a *pro rata* portion of

applicable transaction costs such as commissions and/or execution costs. If an aggregated order is filled across multiple trades at different prices, the Clients may (or may not) be allocated on an average price basis.

The Registrant considers a number of factors when allocating trades among Clients. Initial allocation amounts for purchases among Client accounts are generally allocated *pro rata* according to the factors set out in the Registrant's Trade Allocation Schedule, which sets out a percentage allocation across Clients that is generally based on both (i) available cash and (ii) maximum issuer size. The available cash and maximum issuer size will be determined at the discretion of the Registrant, taking into consideration Client guidelines and other applicable factors (which generally include available cash, equity, collateralized principal amount, unfunded/undrawn capital commitments, planned capital flows, certain liquid investments and leverage).

Following the determination of the initial allocation, other factors may be considered by the Registrant, as it deems appropriate, in making final allocation determinations among Clients, including, but not limited to, investment objectives, the timing of capital inflows and outflows and anticipated capital commitments, subscriptions and distributions and/or withdrawals, liquidity, yield, transaction costs, transaction-specific minimum investment obligations, eligibility requirements and/ or other statutory or contractual restrictions or obligations, portfolio diversification, relative market or industry exposure, tax efficiencies and potential adverse tax consequences, regulatory, policy and/ or other restrictions applicable to participating Clients and/ or to their investors, the avoidance of odd lots or a *de minimis* allocation to one or more of the participating Clients, the risk profile of an investment opportunity and the applicable Clients, the type of asset (*e.g.*, loan versus equity), the capital available for the investment opportunity, the total capital of the account, maximum position size, the amount of securities or loans transacted, previous allocations, lender covenants, and any other factors similar to the foregoing or any other considerations deemed relevant by the Registrant. The Registrant in certain situations will adjust trade allocations in cases where it is limited in its ability to allocate across numerous Clients. Follow-on purchases that add to existing investments will also be allocated according to these general parameters, with consideration given to the relative holdings of the same investments in the accounts (generally, to true up the relative position sizes to an appropriate *pro rata* amount across the relevant Clients). For trades less than or equal to \$10 million market value (or, for assets denominated in euro or sterling, €10,000,000 or £10,000,000, respectively), the Registrant may allocate to one or more Clients in a fair manner, as determined by the Registrant in good faith. The Registrant considers ongoing transaction costs and liquidity considerations for small lot sizes (*e.g.*, the Registrant will take into account assignment costs that materially affect the cost to transact).

Based on the foregoing investment allocation methodology, a Client with higher available cash than a similarly sized or even larger sized Client will, if the maximum issuer size is equal, have a higher initial allocation percentage to an investment. Also, a Client with a larger maximum issuer size than a similarly sized or even larger size Client will, if the

amount of available cash is equal, have a higher initial allocation percentage to an investment.

The outcome of any allocation determination by the Registrant may result in the allocation of all or none of an investment opportunity to a Client. There can be no assurance that a Client will have an opportunity to participate in certain investments that fall within the Client's investment objectives. The Registrant's Trade Allocation Policies and Procedures may be amended by the Registrant at any time at its discretion.

Furthermore, the Registrant's Clients may invest in certain investment strategies, and then the Registrant may subsequently offer Clients the same or similar investment strategies through special purpose entities or designated funds, which may serve as primary or exclusive entities for such investment strategies. Any opportunity to invest in such a special purpose entity or designated fund will be considered for all Clients who invested previously in such investment strategies, in accordance with the Registrant's Trade Allocation Policies and Procedures, as described above, and taking into account the relevant factors, including the length of the investment period and any applicable post-investment period term of each Client. As a result, a Client that is approaching the end of its investment period may not be allocated investment opportunities that have longer investment time horizons or that are more illiquid, even if such opportunity is otherwise an eligible investment. A Client whose investment activities commenced after the establishment of such special purpose entity or designated fund may not be able to participate in such special purpose entity or designated fund if it is a closed-ended entity, or the Registrant determines it could dilute or adversely impact the existing Clients in such entity.

In some cases, management fees are based on invested capital (and not on cash or committed capital), and the Registrant could be incentivized to favor allocations to such Clients, to use leverage (if permitted) for such Clients in order to ramp them more quickly, and to hold onto investments longer in order to continue to earn management fees. Similarly, in the case of Clients that pay management fees solely based on called capital, the Registrant could be incentivized to call capital early and to favor allocations to such Clients.

#### *D. Standard of Care and Trade Errors*

In general, Client investment advisory agreements and other constituent documents, as applicable, provide that (i) the Registrant, affiliates of the Registrant and their respective affiliates, officers, directors, employees, direct or indirect partners, managers, trustees, members, shareholders, agents and/or legal representatives, (ii) any person or entity (as applicable) who serves at the request of the Registrant on behalf of a Client as an officer, director, employee, direct or indirect partner, manager, trustee, member, shareholder, agent and/or legal representative of any other person or entity (as applicable), including, without limitation, any alternative investment vehicle or any issuer, (iii) any controlling person, assignee or successor of any of the foregoing, (iv) any employee of a Client (each of the

foregoing clauses (i)-(iv), a “**Protected Person**”) and (v) any advisory committee member of a Client will not be liable in damages or otherwise to a Client or to any investor therein for any act or omission by it in connection with such Client’s activities, except for any liability that resulted from such Protected Person’s own gross negligence, actual fraud or willful misconduct (or, with respect to an advisory committee member of a Client, such advisory committee member’s own fraud or willful misconduct), unless otherwise agreed to in the investment advisory agreements and other constituent documents, as applicable, or as required by applicable law, provided that any exculpation or indemnification provision(s) in a Client’s investment advisory agreement and other constituent documents, as applicable, will not be construed to provide for the exculpation or indemnification of any Protected Person for any liability (including liability under U.S. federal securities laws which, under certain circumstances, impose liability even on persons that act in good faith), claims, damages or losses to the extent (but only to the extent) that such liability, claims, damages or losses may not be waived, modified or limited under applicable law, but will be construed so as to effectuate such provisions to the fullest extent permitted by law. Additionally, Client investment advisory agreements and other constituent documents, as applicable, generally provide that a Protected Person will not be liable for losses due to the negligence of brokers or other agents of the applicable Client unless such Protected Person was responsible for the selection of such broker or other agent and such Protected Person acted in such selection with gross negligence, actual fraud or willful misconduct. Subject to the investment advisory agreements and other constituent documents, as applicable, of a Client, this standard of care will result in a Client bearing the costs of any trade errors committed by a Protected Person, so long as the errors do not evidence gross negligence, actual fraud or willful misconduct. Examples of trade errors that may be committed by investment advisers include executing a purchase instead of a sale (or *vice versa*), marking a short sale as a long sale, purchasing or selling a security or other instrument in the incorrect amount, or purchasing or selling the wrong security or other instrument. Although a broker-dealer may choose to assume responsibility for a trade error loss caused by the Registrant, the Registrant is prohibited from obtaining a broker-dealer’s agreement to do so in exchange for the Registrant’s promise to direct future commissions to such broker-dealer.

## **Review of Accounts**

Clients are reviewed by the relevant Portfolio Manager(s) who are responsible for the strategies applicable to each Client, and other appropriate investment, operations, legal and compliance and accounting personnel on a regular basis. Matters reviewed include the specific investments held by each Client, the percentage of assets in various types of asset classes, the financial and regulatory reporting relating to investments, the relative and absolute performance of each Client account and liquidity, leverage and counterparty exposure of each Client account.

With respect to the pooled funds and CLOs for which the Registrant serves as general

partner and/or investment adviser, the Registrant may provide regular reports to investors invested in such Clients, as specified in the applicable investment advisory agreement and other constituent documents, as applicable.

For audited funds (other than as described below), the Registrant or the administrator delivers to each investor therein audited financial statements of such fund typically within 90 or 120 days of the conclusion of such fund's fiscal year-end, as well as a statement of each investor's capital account and the amount of each investor's share in such fund's taxable income or loss for each such year. In addition, for some funds, within 30 days of the end of each month, each investor therein receives an unaudited statement of such investor's investment in such fund and changes thereto for the month. Also, for some funds, within 45 to 60 days of the end of each of the first three quarters of each fiscal year, each investor therein receives an unaudited statement of such investor's investment in the fund and changes thereto for the quarter.

For "cash flow" CLOs, the trustee delivers monthly reports to each investor therein detailing compliance with covenants specified by the applicable indenture and related documents. Further, the issuer delivers information to each investor such that it can determine its respective share of taxable income or loss for each fiscal year. In addition, the Registrant may also deliver periodic reports describing significant events and providing performance results, as required by the investment advisory agreement and other constituent documents, as applicable, of the applicable CLO.

With respect to each separately managed account for which the Registrant serves as the investment adviser, the Registrant delivers to each Client monthly, quarterly and/or annual performance reports, as applicable, including information relating to the trading activity in the account during such period and the holdings of the account at the applicable reporting date.

In addition to the foregoing reports and statements, the Registrant may also enter into side letter arrangements that provide for additional transparency for certain Clients (and investors therein).

For each Client, the Registrant will not assign (as that term is defined under the Advisers Act) its investment advisory contract with such Client without the prior written consent of such Client, other than to an affiliate of the Registrant.

## **Client Referrals and Other Compensation**

The Registrant may, from time to time, agree to compensate certain financial institutions and other placement agents and solicitors for helping the Registrant raise capital. Such placement agents and solicitors may also provide other services to Clients, for which they may be compensated.

Certain unaffiliated third parties may refer Clients to the Registrant, or refer investors to fund Clients sponsored or managed by the Registrant. The Registrant does not compensate such unaffiliated third parties separately for any referrals, absent a placement agent, solicitation or other similar arrangement. Such referring third parties may have other business or personal relationships with the Registrant and/or its affiliates, such as being invested in the Registrant's fund Clients, being sources of investment opportunities for the Registrant, or providing other services to the Registrant. In addition, certain portfolio companies may make discounts available to the Registrant and its employees.

## **Custody**

Client funds and securities are held by unaffiliated broker-dealers or banks, to the extent required; however, the Registrant may have access to Client custody accounts, as authorized pursuant to an investment advisory agreement or because an affiliate of the Registrant serves as the general partner of a fund Client or a related special purpose vehicle (together, "**Investment Entities**"). Fund Clients may be subject to an annual audit; if so, the audited financial statements are distributed to each investor in the relevant fund Clients. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 90 or 120 days (as applicable) of the Investment Entity Client's fiscal year end.

For Investment Entities not subject to an annual audit and separately managed account Clients for which the Registrant is deemed to have custody, a qualified independent accounting firm will conduct an annual surprise examination on the holdings over which the Registrant has custody, and the investors in such Investment Entities and such separately managed account Clients receive quarterly account statements from the custodians with regard to such holdings. Clients that receive account statements directly from a custodian should carefully review these account statements. The Registrant generally does not act as custodian or otherwise take or retain possession, custody, title or ownership of holdings of separately managed account Clients. In such cases, the Registrant is not authorized to receive any Client assets and, notwithstanding anything in the Client investment advisory agreement, the custody agreement(s) and/or other constituent documents to the contrary (including any authority granted to the Registrant pursuant to such documents), is not deemed to maintain custody of such Client's assets, as the term "**custody**" is defined in Rule 206(4)-2 under the Advisers Act.

## **Investment Discretion**

The Registrant generally has discretionary authority to determine, without obtaining specific consent from Clients, the instruments and amount to be bought or sold on behalf of a Client. Any limitations on authority are included in a Client's investment advisory agreement and other constituent documents (including any side letters that are executed

with investors), as applicable. Certain Clients engage the Registrant for non-discretionary investment advisory services. Discretionary Clients may, from time to time, direct non-discretionary trades on a one-off basis.

The Registrant and the general partners of, and investors in, certain funds managed by the Registrant are authorized, without the approval of any investor, to enter into side letters or similar written agreements with investors that have the effect of establishing rights under, or altering or supplementing the terms of, the investment advisory agreement and other Client constituent documents, as applicable. Rights that may be established and terms that may be altered or supplemented include, without limitation, rights and terms relating to greater portfolio transparency, fee waivers or reductions, minimum investment amounts, reports and other information, confidentiality, timing of funding, expenses, distributions, legal or regulatory requirements (*e.g.*, tax and ERISA), advisory committee membership, as applicable, and other more favorable investment terms such as withdrawal rights. To the extent that compliance with any of the provisions of any side letters or similar written agreements would cause the Registrant and/or its affiliates to violate their respective fiduciary duties or obligations or to violate any applicable laws, any non-compliance with any such provision will not be deemed to be a breach of such written agreements.

## **Voting Client Securities**

The Registrant has implemented written policies and procedures governing voting Client proxies (the “**Proxy Voting Policy**”). When agreed upon with a Client, the Registrant will be responsible for voting Client proxies relating to equity securities. Pursuant to the Proxy Voting Policy, the Registrant is to vote Client proxies in the interest of maximizing shareholder value, or in certain cases, pursuant to written proxy voting guidelines of such Client. The Registrant generally maintains voting discretion with respect to Client proxies, subject to the applicable investment advisory agreement and other Client constituent documents, as applicable. The appropriate investment professional of the Registrant assigned to such proxy vote, as well as applicable Partners, must disclose to the Compliance Group, as well as the applicable operations manager, whether such individuals are aware of any potential conflicts of interest related to the specific proxy they are voting. All material conflicts of interest will be addressed in a manner deemed appropriate by the Registrant, acting in good faith. The Registrant maintains a record of all proxy votes cast on behalf of Clients. Clients may contact the Registrant for a copy of the Proxy Voting Policy or information with respect to a specific proxy vote.

## **Financial Information**

The Registrant has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to meet the Registrant’s contractual commitments to its Clients.