

**PART 2A OF FORM ADV**

**Spectrum Group Management LLC**

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**This brochure provides information about the qualifications and business practices of Spectrum Group Management LLC (“Spectrum”). If you have any questions about the contents of this brochure, please contact us at 212-687-9555. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about Spectrum also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**REGISTRATION WITH THE SEC AS AN INVESTMENT ADVISER DOES NOT IMPLY THAT SPECTRUM OR ANY PRINCIPALS OR EMPLOYEES OF SPECTRUM POSSESS A PARTICULAR LEVEL OF SKILL OR TRAINING IN THE INVESTMENT ADVISORY OR ANY OTHER BUSINESS.**

### **Material Changes**

This is the annual amendment for the Spectrum Group (“Spectrum” or the “Adviser”) Form ADV for the fiscal year ending December 31, 2019. There have been no material changes since Spectrum’s last Form ADV update on March 28, 2019.

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## **Advisory Business**

Spectrum is a Delaware limited liability company formed in 1999. The founder and principal owner of Spectrum is Jeffrey Schaffer.

Spectrum primarily provides discretionary investment advisory services to private investment funds (the “Spectrum Funds”) using a strategy that invests in high yielding loans, performing and stressed debt, defaulted debt, equities and other securities and investment assets. The investment vehicles are structured as Delaware or Cayman Islands limited partnerships and Cayman Islands exempted companies. A related person of Spectrum generally acts as general partner of each Spectrum Fund that is a Delaware limited partnership, and Spectrum generally acts as investment manager of each Spectrum Fund. Spectrum commenced operations in 1999.

Effective December 31, 2015, Spectrum, with the approval of the Board of Directors of Spectrum Investment Partners, L.P. (“SIP”) and Spectrum Investment Partners International, Ltd. (“SIPI”), decided to return capital to all of the investors in SIP and SIPI. Periodic payments will be made in the future as assets are realized in an orderly manner consistent with maximizing value for investors. All distributions will be made on a pro rata basis to all investors.

Spectrum is generally granted broad investment authority with respect to the management of the accounts of its clients. Spectrum seeks investment opportunities in debt, whether newly originated or purchased on a secondary market, or equities that have the following characteristics: (i) excess assets securing or underlying the investment (low credit to intrinsic value ratios) and (ii) identifiable exit strategies or liquidity options. The objective of Spectrum’s investment strategy is to protect principal while seeking risk-adjusted returns in all market cycles with minimal correlation to other strategies. Spectrum may also invest in options, futures, swaps or other derivative securities and forward contracts relating to loans or distressed or defaulted debt, and make short sales of any such securities for investment or hedging purposes. In addition to focusing heavily on asset coverage, Spectrum pays particular attention to exit strategies and liquidity options. Exit strategies typically will include a clear and achievable path to repayment through a sale of collateral, third party re-financing, equity infusion or debt for equity exchange.

Spectrum tailors its advisory services to the specific investment objectives and restrictions of each client. Spectrum may agree in the investment management agreement with each client to investment restrictions or guidelines with respect to the types or amounts of securities or other financial instruments that may be purchased or sold for the client’s account. Spectrum may pursue different investment strategies for different clients.

Investors and prospective investors in each Spectrum Fund should refer to the confidential private placement memorandum, limited partnership agreement and other governing documents for each Spectrum Fund (the “Governing Documents”) for more complete information on the investment objectives and investment restrictions with

respect to a particular Spectrum Fund. There is no assurance that the investment objectives of any of the Spectrum Funds will be achieved.

Spectrum may enter into “side letters” or similar agreements with certain investors in the Spectrum Funds granting the investor certain specific rights, benefits, or privileges that are not made available to investors generally.

Spectrum does not participate in any wrap fee programs.

As of December 31, 2019, Spectrum managed regulatory assets under management of \$376,870,665 on a discretionary basis for clients.

## **Fees and Compensation**

### *Compensation and Fee Schedules*

All clients are “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended, and therefore this information is not required.

### *Deduction of Fees*

Spectrum is authorized under the Governing Documents to charge and deduct advisory fees, including a management fee and either an annual performance allocation or a private equity-style carried interest. A management fee is usually deducted directly from the assets of each account as such fees become payable, which is generally monthly in advance. A performance allocation is usually payable annually in arrears. A private equity-style carried interest is usually paid as a percentage of net distributions to investors in excess of their invested capital.

Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

### *Other Fees and Expenses*

The clients of Spectrum are responsible for all costs and expenses incurred in connection with the investments in their accounts, including brokerage commissions and other costs of executing transactions; interest expense; audit, legal, due diligence, third-party administration and accounting and tax-related expenses, including but not limited to legal expenses incurred in negotiating and documenting investments (whether or not consummated) and accounting expenses for preparation of tax returns; fees for third-party consultants and others engaged to provide research, evaluation, investigative and other similar services in connection with the client’s investments and other out-of-pocket research expenses, including attendance at industry conferences; insurance costs; costs of regulatory filings; expenses resulting from litigation, regulatory inquiries or administrative proceedings; non-audit accounting expenses and fees for data, quotations, news services and other information. The Spectrum Funds also pay all of their operating costs, including administrative, legal, accounting, auditing and insurance costs and

expenses, as described in greater detail in the Governing Documents for each Spectrum Fund.

See “Brokerage Practices” below for more information about brokerage costs.

#### *Transaction-Based Compensation*

Generally, neither Spectrum nor its supervised persons will receive any compensation with respect to the purchase or sale of securities or other assets by any client. However, Spectrum Origination LLC (“Spectrum Origination”), an affiliate under common control with Spectrum, may originate loans that are subsequently resold to clients of Spectrum, and may receive from the borrower origination, commitment or similar fees in an amount typically equal to 0.25% of any such loan.

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

#### *Performance-Based Fees*

Spectrum, or an affiliate of Spectrum, ordinarily receives a performance-based fee or a special allocation of profits or carried interest from each of its clients (including the Spectrum Funds) calculated and charged based on a share of capital gains or the capital appreciation of the assets of each account during each year or a percentage of distributions to investors in excess of their invested capital. Different client accounts may be subject to different performance-based compensation arrangements.

The performance-based compensation arrangements discussed above comply with Rule 205-3 under the Investment Advisers Act of 1940 (the “Advisers Act”).

Performance-based compensation arrangements received by related persons of Spectrum may create an incentive for Spectrum to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement. Please refer to the Governing Documents of each Spectrum Fund for more complete information on the performance-based compensation arrangements of each Spectrum Fund.

#### *Side-by-Side Management*

If Spectrum is entitled to receive a higher percentage of the net profits or distributions of the account of one client than the percentage that Spectrum receives from another client, then Spectrum may have an incentive to favor, or to allocate certain riskier or more speculative investments to, the client that is subject to the higher percentage.

Spectrum will, as a policy, allocate all investment opportunities among its clients in a manner that it considers fair and equitable to all clients, considering all factors potentially applicable to each client. Among the factors that may be considered by Spectrum in allocating trades among client accounts are: investment policies, guidelines or restrictions applicable to each specific client; tax considerations; cash availability; liquidity

requirements for payment of redemptions or other purposes; risk tolerances; restrictions under ERISA or other applicable laws or regulations; available credit lines; counterparty arrangements; account size; benchmark sector weightings; industry and security weightings; and hedging objectives and activity.

### **Types of Clients**

Spectrum provides advice to pooled investment vehicles, including the Spectrum Funds. The limited partners of the Spectrum Funds may include corporations, endowments, foundations, trusts, estates, individuals and pension and profit sharing plans. The Spectrum Funds are offered exclusively to accredited investors as defined under Regulation D under the Securities Act of 1933, as amended (the “Securities Act”), and to qualified purchasers as defined under Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “Investment Company Act”), and are therefore not required to register as investment companies under the Investment Company Act in reliance upon the exemption under Section 3(c)(7) for funds whose securities are not publicly offered.

Spectrum may in the future also provide investment management and supervisory services to separate account clients. Certain of Spectrum’s separate account clients may invest in existing or future Spectrum Funds.

Spectrum Funds have minimum investment amounts, as described in the Governing Documents for each Spectrum Fund, subject to waiver at the discretion of Spectrum (or the general partner of the relevant Spectrum Fund).

Please refer to the Governing Documents of the applicable Spectrum Fund for more complete information on the minimum investment requirements of such Spectrum Fund.

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

#### *Methods of Analysis*

Spectrum invests in the credit sector with a focus on the distressed, special situations, and corporate and asset based markets.

***High-Yielding Asset-Based Loans:*** Spectrum may invest in high yielding, asset-based loans secured by real estate and other tangible and intangible collateral. In evaluating these investments, Spectrum focuses heavily on asset coverage. An important aspect of Spectrum’s investment strategy is to ensure that each investment in a high yielding loan includes, from the outset, a viable exit strategy intended to create liquidity within a relatively short period of time following the closing of an investment. Exit strategies typically will include a clear and achievable path to repayment through sale of collateral, third party re-financing, equity infusion or debt for equity exchange.

***Distressed/Non-Performing Loans or Securities in the Secondary Market:*** Spectrum may invest in distressed debt, equities, convertibles and other securities that have similar

characteristics, based primarily on excess underlying asset coverage and liquidity options. In considering these opportunities, Spectrum will approach the evaluation of asset coverage in the same manner that it makes such evaluation with respect to the high yielding, asset-based loans. For distressed/non-performing securities purchased in the secondary market, exit strategies may include the resale in the secondary market, a third party refinancing and/or a clear and timely path to a restructuring or foreclosure.

***Special Situations:*** Spectrum may invest in other special situation investments, which may include uniquely structured debt instruments, index, derivative and structured debt instruments and equities in reorganized companies or companies with below investment grade credit profiles.

Although Spectrum generally invests in liquid positions, Spectrum may invest in positions on behalf of certain of its clients that Spectrum determines to be illiquid. Investors are requested to refer to the Governing Documents of each Spectrum Fund for more information on illiquid investments made by Spectrum.

Spectrum may also invest in options, futures, swaps or other derivative securities and forward contracts relating to loans or distressed or defaulted debt, and make short sales of any such securities. Spectrum may temporarily invest cash, directly or indirectly, in obligations of the United States government, certificates of deposit, money market funds, repurchase agreements, savings accounts or other short-term debt instruments.

These descriptions of specific strategies that are or may be engaged in by Spectrum on behalf of its clients are a summary only, and Spectrum has broad discretion to employ investment strategies not described above that Spectrum may, from time to time, consider appropriate.

Spectrum's principal sources of information include quarterly and annual reports, personal interviews with directors and officers of portfolio companies, visits to portfolio companies, SEC and other public filings, general industry knowledge, and contacts with other participants in the relevant industry and financial markets.

### *Material Risks*

Although investments in the Spectrum Funds may result in significant returns to the clients of Spectrum, they also involve a substantial degree of risk. Spectrum generally accepts only clients that are able to bear the financial risk of the investment strategy for an indefinite period of time and are able to sustain the loss of all or a significant part of their investment.

Prospective clients and investors in the Spectrum Funds should carefully review the risks described in the Governing Documents for the relevant Spectrum Fund, and should evaluate the merits and risks of an investment in the context of their overall financial circumstances. The risk factors below are not intended to be exhaustive and should be considered carefully by prospective investors together with the full text of the applicable Governing Document or client agreement.



***Investment Risks in General.*** All investments risk the loss of capital. No guarantee or representation is made that Spectrum's program will be successful, and investment results may vary substantially over time.

***Fixed Income Investments.*** The value of loans and other debt instruments may be detrimentally affected to the extent a borrower defaults on its obligations. Debt instruments may pay fixed, variable or floating rates of interest. Debt instruments are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to the risk of price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness or financial condition of the issuer, and general market liquidity (*i.e.*, market risk). Spectrum will attempt to minimize the risk related to defaults by borrowers on their obligations by maintaining a low loan-to-liquidation value between each loan and the underlying assets. However, there can be no assurance that the value assigned by Spectrum to the collateral or assets underlying a loan can be realized upon liquidation, nor can there be any assurance that the assets will retain their value. Certain loans may be supported, in whole or in part, by personal guarantees made by the borrower or a relative, or guarantees made by a corporation affiliated with the borrower. The amount realizable with respect to a loan may be detrimentally affected if a guarantor fails to meet its obligations under the guarantee. Finally, there may be a monetary cost, as well as a time cost, involved in collecting on defaulted loans and, if applicable, taking possession of various types of collateral. Borrowers may seek to assert defenses, such as lender liability claims, to efforts by Spectrum to obtain repayment of its loans.

***Special Situations Investing.*** Spectrum may invest in debt securities, loans, equities, private claims and other financial instruments and obligations of distressed or under-capitalized companies. Spectrum may lose its entire investment in a troubled company, may be required to accept cash or securities with a value less than Spectrum's investment, and may be prohibited from exercising certain rights with respect to such investment. Spectrum's investments may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the U.S. Bankruptcy Court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may involve costly litigation.

***Loans Secured by Real Estate.*** Spectrum may invest in loans collateralized by real estate. Accordingly, the value of a loan may be detrimentally affected if the real estate collateral declines in value. Spectrum will be subject to the risks generally incident to the ownership of real property, including interest rates and real estate tax rates. Spectrum, in connection with investments in loans secured by real estate, will be subject to extensive federal and state regulation that may have a detrimental impact on either the borrowers or the value of collateral underlying the loans, or both.

***Fraud by Borrowers.*** While Spectrum may perform extensive due diligence on potential borrowers and the underlying collateral, it may not always be possible to uncover fraud.

In the event of fraud by a borrower, a client may lose all or part of the client's investment.

***Syndicated Loans.*** Under the agreements governing many syndicated commercial bank loans, a holder of an interest in a syndicated loan typically cannot call a default or exercise remedies against a borrower, without the agreement of at least a majority of the other lenders. Further, actions can be taken by a majority of the other lenders, or in some cases, a single agent bank, without the consent of Spectrum. If an interest were acquired through a participation, Spectrum would, to some extent, bear the credit risk not only of the borrower, but also of the financial institution from which the participation is acquired.

***Economic Conditions.*** Adverse general economic conditions could adversely affect the borrowers of asset-based loans and could have an adverse impact on the value of distressed debt securities. Such adverse economic conditions could adversely affect the ability of such borrowers or issuers to repay principal and pay interest on the loans or securities and could increase the incidence of defaults.

***Competition for Investment Opportunities.*** Spectrum's ability to identify attractive investment opportunities will be critical to Spectrum's success. There can be no assurance that sufficient investment opportunities will develop in the future. Spectrum may be forced to compete for investment opportunities with entities that have substantially greater financial and other resources than Spectrum. Those entities may be able to tolerate more risk than Spectrum can prudently accept. Competition generally may reduce the number of suitable investment opportunities available to Spectrum. No assurances can be given that such competition will not adversely affect Spectrum's ability to make investments and generate revenues.

***Less than Fully Invested.*** Spectrum makes investments that often are complicated and time-consuming to close. In addition, at any given point in a year, Spectrum may be actively working on many investments that appear viable and at other points there may only be a few. As a result, it is possible that accounts managed by Spectrum may hold a significant amount of cash or cash equivalents at various points of time during the year.

***Lack of Liquidity in Investments.*** Spectrum will make certain investments that have limited liquidity options. This is particularly true of loans for which there is no ability (or limited ability) to sell the investment. For non-performing securities purchased on the secondary market, the liquidity, the depth of the market and the pricing spreads will vary from investment to investment. This lack of liquidity and depth could impair the ability of Spectrum to generate capital either for new investments or to pay redemption proceeds.

***Limited Diversification.*** Spectrum may invest, at any given time, in a relatively small number of investments. Investment positions will not necessarily be broadly diversified in terms of the types of companies or assets.

***Short Sales.*** Spectrum may engage in "short sale" transactions. A short sale involves the sale of a security that the investor does not own in the hope of purchasing the same

security (or a security exchangeable for such security) at a later date at a lower price. To make delivery to the buyer, the investor must borrow the security. Short selling can result in profits when the prices of the securities sold short decline. In a generally rising market, short positions may be more likely to result in losses because the securities sold short may increase in value. A short sale involves the theoretically unlimited risk of an increase in the market price of the securities sold short.

**Swaps and Derivatives.** Spectrum may invest and trade in swaps, options and other derivative instruments issued by banks, brokerage firms or other financial institutions. A swap is an agreement with a financial intermediary whereby cash payments periodically are exchanged between the parties based upon changes in the price of an underlying asset (such as an equity security, an index of securities, or another asset or group of assets with a readily determinable value). Swaps and other derivative instruments may be subject to the risk of non-performance by the counterparty. Many swaps and derivative instruments are not currently guaranteed by an exchange or clearing house. It may not be possible to dispose of or close out a swap or other derivative position without the consent of the counterparty. Regulatory changes in the United States and other countries may significantly impact the trading of swaps and other derivatives in the future.

**Counterparty Risk.** There is always the risk that the counterparties, including borrowers, brokerage firms, banks and issuers, with which Spectrum does business, or to which investments or securities have been entrusted for custodial purposes, will encounter financial difficulties that may impair the operational capabilities or the capital position of Spectrum.

**Operational Risks.** Spectrum is responsible for developing, implementing and operating appropriate systems and procedures to execute all investment transactions and monitor and control operational risk on behalf of client accounts. Spectrum relies on its execution, financial, accounting and other data processing systems to trade, clear and settle all transactions, to evaluate and monitor potential and existing portfolio investments, and to generate risk management and other reports that are critical to oversight of client accounts. Certain of Spectrum's operations are dependent upon systems operated by third parties, including prime brokers, counterparties, electronic exchanges, other execution platforms and their various service providers. Spectrum may not be in a position to verify the reliability of such third-party systems or data. Failure of or errors in such systems could result in mistakes or delays in the execution, confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. The increasing reliance on internet-based programs and applications to conduct transactions and store data also creates increased security risks. Targeted cyber-attacks, or accidental events, can lead to a breach in computer and data systems and access by unauthorized persons to sensitive transactional or personal information. Data taken in breaches may be used by criminals to commit identity theft, obtain loans or payments under false identities, and other crimes. Cybersecurity breaches at Spectrum or its service providers or counterparties may directly or indirectly affect clients, and could lead to theft, data corruption, interference with business operations, disruption of operational systems, interference with Spectrum's or a client's ability to execute

transactions, direct financial loss or reputational damage, or violations of applicable laws related to data and privacy protection and consumer protection.

***Risk of Litigation.*** Spectrum might become involved in litigation as a result of investments it may make. Under such circumstances, Spectrum could be named as a defendant in a lawsuit or regulatory action.

### **Disciplinary Information**

Spectrum and its principals have not been the subject of any legal proceeding required to be disclosed in response to this item.

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

#### *Registered Broker-Dealers*

None of Spectrum or its principals or employees is registered as a broker-dealer or a registered representative of a broker-dealer. In addition, Spectrum and its principals or employees are not affiliated with any broker-dealer or bank.

#### *Registered Futures Commission Merchants, Commodity Pool Operators and Commodity Trading Advisors*

None of Spectrum or any of its principals or employees is registered as a registered futures commission merchant, commodity pool operator or commodity trading advisor.

#### *Relationships with Related Persons*

The only clients of Spectrum currently are the Spectrum Funds, each of which is a pooled investment vehicle exempt from registration under the Investment Company Act. An affiliate of Spectrum acts as general partner of certain of the Spectrum Funds.

Employees of Spectrum and its affiliates may serve as officers, advisors, directors or in comparable management functions for portfolio companies in which the clients of Spectrum invest, or provide other services to portfolio companies, and may receive reimbursement of expenses in connection therewith. Employees of Spectrum may also from time to time serve on the board of directors or a creditors committee of a portfolio company, or be given access for other reasons to confidential information relating to companies in which the Spectrum Funds invest. As a result, Spectrum and the clients of Spectrum may, under certain circumstances, be prohibited for a period of time from engaging in transactions with respect to the debt or securities of such a portfolio company, which prohibition may have an adverse effect on the clients of Spectrum.

As noted above, Spectrum Origination, an affiliate under common control with Spectrum, may originate loans that are subsequently acquired by clients of Spectrum. Spectrum Origination may charge borrowers origination, commitment or similar fees in an amount ordinarily equal to 0.25% of any such loan originated by Spectrum Origination.

### *Selection or Recommendation of Other Advisers*

Spectrum does not recommend or select other investment advisers for its clients. Spectrum does not have other business relationships with other advisers that create a material conflict of interest.

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

### *Code of Ethics*

Spectrum has adopted a Code of Ethics under Rule 204A-1 of the Advisers Act reflecting Spectrum's commitment to ethical conduct. Spectrum's Code of Ethics describes its fiduciary duties and responsibilities to its clients, and sets forth Spectrum's policies governing the receipt of gifts by employees and the personal securities transactions of supervised persons with access to client investment recommendations. Under Spectrum's Code of Ethics, all supervised personnel have a duty to act only in the best interests of the clients of Spectrum. All supervised personnel must acknowledge the terms of the Code of Ethics annually.

The Code of Ethics contains policies and procedures with respect to personal securities transactions by employees and related accounts that are designed to prevent front-running, scalping, the misuse of inside information and other improper activities. Employees must obtain the prior approval of Spectrum's Chief Compliance Officer ("CCO") and the Managing Member of Spectrum (the "Managing Member") for all personal securities transactions (subject to certain limited exceptions), and must report all personal transactions to the CCO (or a designee) on at least a quarterly basis. All approved personal securities transactions must take place on the same day or the next business day that the advance clearance is obtained. The CCO (or a designee) monitors all transactions by employees in order to identify any pattern of conduct that may evidence conflicts or potential conflicts with the principles and objectives of the Code of Ethics, or other inappropriate behavior.

Spectrum requires that all individuals act in accordance with all applicable federal and state regulations governing investment advisory practices. Spectrum's Code of Ethics also includes the firm's policy prohibiting the use of material non-public information. Any individual who violates the Code of Ethics may be subject to discipline or termination.

Spectrum will provide a copy of its Code of Ethics to any client or prospective client upon request.

### *Participation or Interest in Client Transactions; Personal Trading*

Spectrum serves as investment adviser to certain "master" investment funds in which other "feeder" funds, for which Spectrum also serves as investment adviser, invest all or substantially of their assets.

Spectrum and its principals and employees are investors in some of the investment funds managed by Spectrum.

As noted above, Spectrum Origination may originate loans that are subsequently acquired by clients of Spectrum.

Spectrum may, on occasion, cause one or more of its clients to buy assets from, or sell assets to, other clients of Spectrum at current market prices, including accounts in which Spectrum, its principals or employees are investors or in which such persons may have a financial interest due to the payment of a performance allocation to Spectrum (or an affiliate) by such client. Spectrum may also effect cross transactions between client accounts for purposes of rebalancing the investment positions in such accounts. Where applicable, the consent of the appropriate client (which, in certain circumstances, may be provided by the client's independent directors) to such transaction will be obtained in accordance with the Advisers Act and related rules.

On occasion, with the prior written approval of the CCO and the Managing Member, Spectrum and its principals and employees may buy and sell securities for themselves that they also recommend to clients. As described above, the Code of Ethics contains policies and procedures designed to prevent improper practices with respect to such transactions as described above. Subject to limited exceptions, the employees of Spectrum are not permitted to execute a personal securities transaction without the prior approval of the CCO and the Managing Member. The CCO monitors all trading by Spectrum principals and employees in order to ensure compliance with these and other provisions of the Code of Ethics.

In certain situations, related persons of Spectrum may purchase interests in portfolio investments held by one or more of Spectrum's clients. All such purchases are subject to compliance with Spectrum's Code of Ethics, as described above. Clients of Spectrum may also be offered the opportunity to acquire participations in investments that are held by another client of Spectrum.

### **Brokerage Practices**

Subject to the investment objectives, policies and restrictions of each Spectrum Fund as set forth in such Spectrum Fund's Governing Documents, Spectrum has discretionary authority to determine the type, amount, and price of securities and investments to be bought and sold on behalf of each Spectrum Fund or other client, including the selection of, and commissions paid to, brokers.

In selecting broker-dealers to effect securities transactions, Spectrum seeks to obtain best execution by considering factors including, but not limited to, ability to achieve prompt and reliable executions at favorable prices, operational efficiency with which transactions are effected, financial strength, integrity and stability of the broker, any special expertise or capabilities of the broker, competitiveness of commission rates, when applicable, in comparison with other brokers satisfying Spectrum's other selection criteria and such

other factors as Spectrum considers relevant and beneficial to the clients of Spectrum. Spectrum attempts at all times to achieve best execution.

#### *Research and Other Soft Dollar Benefits*

Spectrum may take into account research and other services provided to Spectrum by brokers. Spectrum does not necessarily solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Spectrum may cause a higher commission to be paid to a broker or dealer that furnishes research, services or equipment than might be charged by another broker or dealer for effecting the same transaction, provided that Spectrum determines in good faith that the amount of commissions charged is reasonable in relation to the value of the brokerage and research or investment management-related services and equipment provided by such broker or dealer.

Research services provided to Spectrum by brokers may include written information and analyses concerning specific securities, companies or sectors (whether produced by the broker or a third party); market, financial and economic studies and forecasts (whether produced by the broker or a third party); statistics and pricing services; discussions with research personnel; data bases; and other news, technical and telecommunications services utilized by Spectrum in the investment management and execution process, accounting fees and legal fees. Spectrum does not expect to receive any benefits outside the safe harbor under Section 28(e) of the Securities Exchange Act of 1934, as amended, for the use of commissions or “soft dollars” to obtain “research and execution” services. Research services provided by brokers may be used for the benefit of all clients of Spectrum.

Spectrum’s use of client brokerage commissions to obtain research services is a benefit to Spectrum because Spectrum does not have to produce or pay for such research services. This may result in an incentive for Spectrum to select or recommend a broker-dealer based, in part, on the interest of Spectrum in receiving such research services, rather than exclusively on the interest of Spectrum’s clients in receiving most favorable execution.

Spectrum and its affiliates may have other business arrangements with brokers and dealers used to execute transactions for clients. Brokerage firms and their affiliates and representatives may invest in funds managed by Spectrum, and may provide financing or other services to Spectrum or other accounts managed by Spectrum. Brokerage firms and their employees may offer gifts to employees of Spectrum, and may invite employees of Spectrum to entertainment and social events. It is Spectrum’s policy that factors such as gifts and entertainment that do not benefit client accounts should not be considered when selecting brokers and counterparties to execute transactions for clients.

#### *Brokerage for Client Referrals*

Subject to Spectrum’s obligation to seek best execution of all transactions for its clients, Spectrum may consider referrals of investors in determining its selection of broker-dealers. Spectrum may have an incentive to select or recommend a broker-dealer based

on its interest in receiving investor referrals, rather than on its clients' interest in receiving the most favorable execution.

#### *Directed Brokerage*

Spectrum does not have any arrangement with any client to direct Spectrum to execute transactions through a specified broker-dealer.

#### *Trade Aggregation*

Spectrum has established allocation and aggregation procedures for the allocation of portfolio investment transactions among its client accounts. The allocation and aggregation procedures are designed to ensure that each account is treated fairly and that transactions are allocated in a manner that is fair and equitable to each client relative to the other clients, taking into account all relevant facts and circumstances. If all orders placed for client accounts cannot be fully executed under prevailing market conditions, then the securities traded may be allocated among client accounts on a pro rata basis or in some other equitable manner, taking into account the size of the order placed for each account and any other relevant factors. The aggregation of orders may not always be to the benefit of a client account with regard to the price or quantity executed.

### **Review of Accounts**

#### *Review of Client Accounts*

All client accounts are reviewed on a daily basis by Jeffrey Schaffer, the principal of Spectrum.

#### *Reports to Clients*

Each Spectrum Fund distributes to its investors (i) monthly or quarterly written account statements, (ii) written quarterly reports and (iii) annual audited financial statements of the Spectrum Fund, in the case of (ii) and (iii) accompanied by a narrative description of the Spectrum Fund's then current investment portfolio.

Investors should refer to the Governing Documents of each Spectrum Fund for further information on the reports provided by a particular Spectrum Fund to its investors.

### **Client Referrals and Other Compensation**

#### *Economic Benefits Received from Third Parties*

As noted above, Spectrum Origination may originate loans that are subsequently acquired by clients of Spectrum. Spectrum Origination may charge borrowers origination, commitment or similar fees in an amount ordinarily equal to 0.25% of any such loan originated by Spectrum Origination.



### *Third Party Compensation for Client Referrals*

Spectrum or its affiliates may enter into arrangements to pay to third parties who introduce clients to Spectrum or its affiliates a portion of the advisory fees received by Spectrum or its affiliate from such clients. Such arrangements will be disclosed to Spectrum's clients in accordance with, and otherwise comply with, Rule 206(4)-3 under the Advisers Act to the extent applicable.

Spectrum and its affiliates may enter into arrangements to pay to placement agents or third parties introducing investors to a Spectrum Fund a portion of the advisory fees received by Spectrum or its affiliate from such Spectrum Fund. Spectrum may also consider referrals of clients or investors to the Spectrum Funds in determining its selection of broker-dealers for securities transactions.

### **Custody**

Spectrum will not have physical custody of any client assets, all of which are held by one or more qualified custodians, except for certain privately offered securities that are not required to be maintained with a qualified custodian. Spectrum urges clients to carefully review any statements received from their custodian and to compare them to any account statements provided by Spectrum.

Spectrum may be deemed to have custody of the assets of the Spectrum Funds as a result of its authority over the Spectrum Funds. It is Spectrum's policy to cause each Spectrum Fund with assets over which Spectrum is deemed to have "custody" to be audited annually and distribute audited financial statements to investors no later than 120 days after the end of each fiscal year.

### **Investment Discretion**

Subject to the investment objectives, policies and restrictions of each Spectrum Fund as set forth in the Governing Documents of such Spectrum Fund, Spectrum has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of each Spectrum Fund and client account, including the selection of, and commissions paid to, broker-dealers.

Unless otherwise agreed to between Spectrum and each client, Spectrum will not ordinarily be responsible for losses in client accounts, whether caused by the actions of Spectrum or unrelated third parties, unless caused by the gross negligence, fraud or willful misconduct of Spectrum. Accordingly, Spectrum will not ordinarily be responsible for the consequences of ordinary trade errors, unless caused by the gross negligence, fraud or willful misconduct of Spectrum.

### **Voting Client Securities**

Because Spectrum has, or will accept, authority to vote securities held by its clients, it has adopted policies and procedures designed to ensure that Spectrum complies with the requirements of Rule 206(4)-6 and Rule 204-2(c)(2) under the Advisers Act, and to reflect Spectrum's commitment to vote all client securities for which it exercises voting authority in a manner consistent with the best interest of the client.

When exercising its voting authority over client securities, Spectrum considers all relevant information, evaluates other issues that could have an impact on the value of the security and votes with a view toward maximizing overall value. Spectrum reviews each proposal submitted for a vote on a case-by-case basis to determine whether it is in the best interest of the client. As a result, depending on the client's particular circumstances, Spectrum may vote one client's securities differently than it votes those of another client, or may vote differently on various proposals.

Prior to exercising its voting authority, Spectrum determines whether or not a material conflict of interest may arise due to business, personal or family relationships between Spectrum, its owners, employees or related persons and any other persons having an interest in the outcome of the vote. If a material conflict exists, Spectrum takes steps to ensure that its voting decision is based on the best interests of the client and is not a product of the conflict. Spectrum may, at its discretion, disclose the conflict of interest to the client and defer to the client's voting recommendation, defer to the voting recommendation of an independent third party provider of proxy voting services, and/or take any other action that would serve the best interest of the client.

Spectrum will deliver to any client upon written request a copy of its proxy voting policy and information as to how it voted proxies for such client.

### **Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. Spectrum has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to its clients, and has not been the subject of a bankruptcy proceeding.