



Part 2A of Form ADV: Firm Brochure

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**This Brochure provides information about the qualifications and business practices of DDJ Capital Management, LLC. If you have any questions about the contents of this Brochure, please contact DDJ at (781) 283-8500 and/or at [inforequest@ddjcap.com](mailto:inforequest@ddjcap.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**DDJ is a registered investment adviser. Registration of an investment adviser with the SEC, however, does not imply any level of skill or training and no inference to the contrary should be made.**

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



## Item 2      Material Changes

The following comprise the material changes to this Brochure since its the most recent filing by DDJ with the Securities and Exchange Commission on November 8, 2019:

1. Item 8, “Significant Investment Strategies”: DDJ now characterizes its total return credit strategy as a “significant investment strategy” pursued by the firm on behalf of certain clients. In its previous Brochure, DDJ considered the total return credit strategy a “customized solution” developed on behalf of such clients, rather than a significant investment strategy of the firm.
2. Item 8, “Material Risks”: DDJ has expanded the disclosure in certain risk factors identified in its prior Brochures to reflect various risks to the DDJ investment advisory business that are particularly associated with the recent COVID-19 outbreak and its associated public health and economic repercussions.

Please note that additional information has been added to certain other Items as well; however, DDJ does not consider these other changes to be material to warrant separate disclosure on this page. **Prospective and current clients of DDJ should review the entire Brochure carefully.**

### Item 3      Table of Contents

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## Item 4      **Advisory Business**

### Background

DDJ Capital Management, LLC (“DDJ”), which has operated continuously since its inception in 1996, provides investment advice directly to various institutional clients, including corporate pension plans (both domestic and non-U.S.), public retirement plans, and Taft-Hartley plans. DDJ also acts as investment sub-adviser to certain U.S. and non-U.S. investment advisers and asset managers; in such capacity, DDJ serves as an investment sub-adviser on behalf of certain U.S. open-end investment companies (mutual funds) registered with the SEC pursuant to the Investment Company Act of 1940, as amended (the “1940 Act”). In addition, DDJ also serves as sole investment adviser to the DDJ Opportunistic High Yield Fund, a mutual fund registered with the SEC pursuant to the 1940 Act, as well as investment adviser to certain pooled private investment vehicles. The firm, which is organized as a Massachusetts limited liability company, has been registered as an investment adviser with the Securities and Exchange Commission since 1997.

David J. Breazzano, a co-founder of the firm, serves as DDJ’s President and Chief Investment Officer as well as its sole manager under DDJ’s governing limited liability company agreement. In this capacity, Mr. Breazzano chairs the firm’s management operating committee, which is responsible for overseeing the business affairs of the organization. Mr. Breazzano, together with certain affiliated family trusts established for his estate planning purposes, is the owner of a majority of the equity units issued by the firm, including 100% of its voting equity units. Certain senior employees in the aggregate also hold a significant stake in the outstanding equity units of the firm.

### Advisory Services Offered by DDJ

DDJ offers investment advisory services that specialize in identifying investment opportunities among high yield and financially stressed companies operating primarily in the United States and, to a much lesser extent, Canada. DDJ’s distinctive investment style generally focuses on the lower tier of the non-investment grade credit markets, particularly high yield bonds and bank loans as well as, to a much lesser extent, distressed debt and reorganized and leveraged equities. In providing such advisory services, irrespective of the specific investment strategy implemented on behalf of a client, DDJ adheres to a value-oriented, “bottom-up”, fundamental investment approach with an emphasis on downside protection. As part of this fundamental approach to investing, DDJ attempts to create a comprehensive analytical overview of the company targeted for investment by examining both its current and future business prospects. More detailed information regarding DDJ’s advisory services, its method of analysis, and the significant investment strategies that DDJ pursues on behalf of its clients is set forth in Item 8 of this Brochure.

Although DDJ pursues highly focused investment strategies, DDJ nonetheless customizes its advisory services to the individual needs and requirements of its institutional clients, which typically choose to establish separately managed accounts with DDJ. Such clients may, and frequently do, impose restrictions on investing in certain securities or types of securities, as further set forth in the applicable written advisory agreement(s) entered into with DDJ.

In 2016, DDJ became a signatory to the United Nations-supported Principles for Responsible Investment (“UNPRI”). The UNPRI initiative is based on six principles that address the integration of environmental, social and governance (“ESG”) factors into investment decision-making practices. As a UNPRI signatory, DDJ has committed to integrate ESG factors, where appropriate and consistent

with its fiduciary duty to its respective clients, into its investment research and portfolio construction process, and annually report such ESG efforts to the UNPRI on a comprehensive basis. However, DDJ does not systematically apply specific ESG and/or other socially responsible exclusionary restrictions (*e.g.*, an investment restriction with respect to securities issued by companies developing cluster munitions) in its client portfolios unless specifically directed to do so by a client.

DDJ does not participate in wrap fee programs.

### Assets Under Management

As of March 20, 2020, DDJ managed approximately \$6.74 billion of assets held in either separately managed accounts or pooled investment vehicles (including private investment funds as well as DDJ's proprietary U.S. mutual fund). All such assets are managed by DDJ on a discretionary basis, although certain funds and accounts are in their wind-down or termination stage and accordingly DDJ is no longer making any new investments on their behalf. In addition to the foregoing, DDJ has entered into an investment advisory agreement with a family office client whereby DDJ has agreed on its behalf to execute client-directed trades in the high yield bond primary market. As DDJ does not provide any continuous and regular supervisory or management services with respect to such non-discretionary account, DDJ does not manage any specific amount of assets with respect to such client.

## **Item 5 Fees and Compensation**

### Compensation for Advisory Services

DDJ's compensation for its discretionary advisory services comprises either one or two components. The first component, which is presently utilized for all discretionary investment products actively managed by DDJ, is an asset-based (management) fee. Such an asset-based fee typically ranges from approximately 0.20% to 1.00% of the market value of assets under management depending on the specific investment strategy pursued. Typically, as the total amount of assets managed by DDJ on behalf of a particular client increases in excess of certain standard or client-specific breakpoints for a particular investment strategy, the marginal asset-based management fee rate, as well as the average asset-based management fee rate, charged by DDJ declines. In all cases, DDJ charges its clients such fee in arrears on a monthly or quarterly basis depending on the terms of the specific client mandate. Depending on the underlying terms of a client arrangement, DDJ may also aggregate the assets under management of related or otherwise affiliated client accounts when determining the specific breakpoints and the applicable asset-based fees for such clients.

The second component of DDJ's compensation, which is applicable only for certain investment products managed or advised by DDJ, is a performance-based fee or (in the case of a commingled fund) an allocation of profits. Such component may be structured on an absolute basis (and therefore tied to the overall profitability of the particular client fund/account under management) or on a relative basis (and therefore tied to investment outperformance with respect to a designated benchmark index). In each case, such performance-based component may be subject to a cap and/or other limitations depending on specific client arrangements. Clients may pay this amount either to DDJ directly as a performance-based fee, or to an affiliate of DDJ, such as the general partner of a limited partnership managed by DDJ, as an incentive-based allocation of a portion of profits (*e.g.*, a "carried interest").

Clients pay performance fees or incentive-based allocations, in whole or in part, based on mark-to-market performance, including unrealized appreciation on assets, at the end of a period (typically measured at year-end though in some cases over a longer, multi-year period or a shorter interim period in connection with a partial or full withdrawal of assets by a client or investor). The payment of such performance-based amounts may be subject to a “high water mark” and/or a hurdle rate. Given the current mix of assets under management, the revenue generated from existing performance-fee structures typically does not constitute a significant portion of DDJ’s total revenue stream.

Any such performance fees (or incentive-based allocations) will be computed and charged, to the extent applicable, by DDJ in accordance with the terms of the applicable governing documents for such client, as well with Section 205 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”) and Rule 205-3 (including the client qualification provision) promulgated by the SEC thereunder.

With respect to DDJ’s single advisory engagement for which DDJ does not exercise investment discretion, the client has agreed to compensate DDJ with a fixed annual fee (payable on a quarterly basis in arrears), irrespective of the extent of any actual portfolio trading executed by DDJ at the request of such client.

Given the investment vehicles presently under management, DDJ does not charge any of its clients fees that are payable in advance.

#### Advisory Fee Arrangements

With respect to clients that establish a separately managed account (as well as any investment fund comprising either a single, dedicated third party investor or an affiliated group of investors), DDJ typically negotiates its fees on an individual basis taking into account the particular investment strategy to be pursued, the degree of management involved, the size of the account and overall client relationship, the particular client type, the complexity of the investment guidelines, the extent of the reporting requirements, and other relevant considerations. However, with respect to each of its significant investment strategies, DDJ has adopted a “standard” fee schedule that is provided to prospective clients upon request. With respect to the payment of such fees, a separate account client may either make payment to DDJ outside of the managed account, or instruct its custodian (which is selected by the client) to deduct such fees directly from the assets held within the managed account. In most cases (but for when a third-party administrator oversees the process), DDJ provides the client with a detailed invoice of the applicable fee (including any performance-based component) for the advisory services rendered.

Notwithstanding the foregoing, DDJ may be limited in its ability to negotiate certain separately managed account fee schedules for future clients (or otherwise revise fee schedules for certain existing clients), in part due to the terms of its existing client contracts, some of which require equivalent (“most favored nations”) pricing. Pursuant to those agreements, DDJ is generally required to offer such client the same fee schedule that it offers to other similarly situated clients (*e.g.*, clients that have a similar or smaller account size, are pursuing the same or substantially the same investment mandate and strategy, and/or are receiving from DDJ substantially the same services as the client with the “most favored nations” pricing provision, among other factors that may be evaluated by DDJ on a case-by-case basis in reaching such a determination).

DDJ generally does not negotiate its fees with the underlying investors in its pooled investment vehicles (though exceptions exist, such as for large investors within such commingled vehicles). Depending on the circumstance, DDJ may either deduct such fees directly from the investor's assets within the pooled investment vehicle managed by DDJ or otherwise invoice the investor separately outside of such vehicle. DDJ typically waives both management and performance fees (or incentive-based allocations) with respect to any assets invested by DDJ employees in its pooled private investment vehicles.

**It is critical that clients of DDJ as well as prospective investors refer to their respective governing documents for a complete understanding of how DDJ is compensated for its investment advisory services.**

#### Additional Fees and Expenses

The applicable advisory agreement for each client will typically set forth any other types of fees or expenses that clients may incur in connection with DDJ's advisory services. Such expenses may include, without limitation, brokerage fees and commissions, settlement-related fees, and legal fees and other expenses incurred in connection with the actual or proposed acquisition of an investment or in connection with the enforcement of a client's rights and remedies as a holder of such investment.

Specifically with respect to pooled investment vehicles managed by DDJ, which are more costly than a separate account for DDJ to establish and manage, detailed information regarding the expenses expected to be incurred by such pooled investment vehicle (including, without limitation, certain organizational expenses, outside counsel expenses incurred in connection with the investing activities of such pooled vehicles, and ongoing custodian, administration, audit, and tax preparation fees) is typically set forth in the applicable offering document or otherwise separately disclosed to the investor. In addition, with respect to the DDJ Opportunistic High Yield Fund, a U.S. mutual fund managed by DDJ, depending on the share class purchased, investors may incur additional fees for distribution (pursuant to Rule 12b-1 promulgated by the SEC under the 1940 Act) as well as fees for sub-transfer agent/record keeper services, in addition to certain other expenses applicable for all investors as further detailed in the prospectus for such mutual fund.

To the extent that expenses (*e.g.*, brokerage commissions) are incurred concurrently by multiple clients, DDJ will generally allocate such expenses on a *pro rata* basis, based on the investments purchased, sold or held, as applicable, provided that DDJ may adjust such allocation if it believes in good faith that such adjustment is fair and equitable to the affected clients under the circumstances. For more information regarding brokerage and other transaction costs in particular, please refer to Item 12 of this Brochure.

#### Valuation of Illiquid Assets

Typically, a portion of the assets held by DDJ client portfolios, many of which target investments in the lower rated tier of the below investment grade market, may be illiquid or otherwise hard-to-value as a result of a thinly traded or otherwise inactive secondary market. The percentage of such illiquid assets relative to total portfolio size will vary from client to client based on the investment strategy selected, each client's specific investment guidelines and restrictions, applicable regulatory requirements, and then-current investment opportunities available in the high yield market, among other factors.

In such circumstances where there are limited or no observable market inputs, DDJ typically internally “fair values” such investments in a manner consistent with applicable accounting principles and standards. Because DDJ receives an advisory fee from its clients typically based on the periodic value of assets under management, DDJ may have an incentive to inflate the value of such “fair valued” assets, thereby increasing the fees payable to DDJ by its clients. Although the custodians or fund administrators, as applicable, for DDJ’s clients are generally ultimately responsible for determining the value of the portfolio on which the advisory fee is calculated, DDJ believes that such third-party entities typically rely upon DDJ for certain financial information (not generally available to the public) and analysis in order for them to appropriately value these types of less liquid investments.

To address this potential conflict of interest, DDJ has adopted rigorous pricing procedures with respect to its client portfolios, which include, without limitation, the preparation of written fair value reports that set forth in reasonable detail the fair value of such illiquid or hard-to-value investments as of the applicable valuation date; a monthly review of the valuation of such investments by the DDJ Chief Financial Officer and/or the Director of Accounting; and a quarterly review of such investments by the DDJ fair value committee (the composition of which includes the Chief Financial Officer, the Director of Accounting, and the Chief Compliance Officer as well as certain members of the DDJ investment team). On occasion, the DDJ fair value committee may approve the engagement by DDJ of an independent third-party valuation expert to separately value certain of these fair valued investments (*e.g.*, a substantial private equity position) held within DDJ client portfolios; DDJ will then typically incorporate such third-party valuation assessment into its own determination of the fair value of such investment itself. Furthermore, on an annual basis, the independent auditors for each of DDJ’s pooled investment vehicles as well as for many of DDJ’s separate account clients perform certain audit procedures with respect to the valuations of those assets held by such clients that have been internally fair valued by DDJ. DDJ believes that this auditing process provides an additional safeguard that reduces the risk that DDJ could inappropriately inflate such valuations. More information regarding DDJ’s pricing policies and procedures concerning hard-to-value investments is available upon request.

#### Compensation of Employees

To the extent that DDJ does not properly align its personnel with compensation incentives consistent with its clients’ objectives, a conflict of interest may arise between DDJ and its clients. To address this potential conflict of interest, DDJ has adopted a remuneration policy, which is designed to support DDJ’s recruitment, development and long-term retention of talented professionals by aligning remuneration and associated incentives with the firm’s overall business strategy. A remuneration committee that comprises the members of DDJ’s management operating committee oversees the implementation of the remuneration policy as well as DDJ’s remuneration practices generally.

Pursuant to the remuneration policy, DDJ attempts to award all short-term and long-term variable remuneration to its employees in a manner that is consistent with sound risk management principles; does not induce excessive risk-taking by firm personnel; and is otherwise in line with DDJ’s business strategy, objectives, values and long-term interests (including employee retention). For example, DDJ attempts to appropriately balance and constrain incentives for its employees to take risks (*e.g.*, by investing client portfolios in a more speculative but higher yielding credit) with incentives to manage risk (*e.g.*, by taking steps to maximize downside protection with respect to any individual credit, a central tenet of DDJ’s investment philosophy). Similarly, the performance-based



remuneration component of employees in control functions (*e.g.*, compliance, finance and accounting) is based significantly on function-specific objectives and not determined solely with respect to company-wide performance criteria (*e.g.*, asset and revenue growth), though overall company profitability is typically a material factor in such determinations as well. Furthermore, DDJ also attempts to appropriately manage and limit the influence of the investment function with respect to the remuneration of the various control functions within the firm in an effort to ensure their relative independence; however, as DDJ is a small, privately-held company, DDJ's President and Chief Investment Officer maintains final authority with respect to material remuneration decisions across all departments, including the firm's various control functions.

Finally, neither DDJ nor any of its employees receives any compensation, such as asset-based sales charges or service fees, specifically related to the purchase or sale of securities associated with DDJ-managed investment products. However, consistent with common industry practices, a portion of the variable compensation paid by DDJ to certain senior employees on its business development staff is based on the generation of new client business and, in particular, is tied to the revenue earned by DDJ associated with any recently-won separately managed account mandates, as otherwise set forth in a written compensation program specially designed by DDJ for such staff members.

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

### Allocation of Trades

As described above in Item 5 of this Brochure, DDJ (or an affiliated entity) charges certain clients performance-based fees (or incentive-based allocations of profits), which are based on either total profitability or outperformance over agreed-upon benchmarks, in each case over a certain period of time as set forth in the governing agreement with respect to such arrangement. Further, DDJ manages accounts for which DDJ charges a performance-based fee (or an incentive-based allocation of profits), coupled with an asset-based fee component, and accounts for which DDJ charges solely an asset-based fee component. Because client accounts with such different fee structures nonetheless may pursue similar investment strategies and objectives and accordingly invest in names that overlap amongst such portfolios, DDJ and its portfolio managers face a potential conflict of interest when concurrently managing these accounts, as DDJ may have an incentive to direct its best investment ideas to, or allocate or sequence trades in favor of, those accounts for which DDJ receives a performance-based fee (or, in the case of a DDJ affiliate, an incentive allocation). In certain circumstances, this type of fee arrangement may provide DDJ with a potential incentive to make investments that are riskier or more speculative than would be the case in the absence of such a performance-based fee or allocation. In addition, certain clients that pursue similar investment strategies, but do not pay DDJ performance fees, nonetheless have different investment advisory fees from each other, which can also create an incentive for DDJ to allocate more attractive investment opportunities to those clients that DDJ charges higher investment advisory fees.

DDJ owes a fiduciary duty to its clients to not favor the account of one client over that of another, without regard to the types and amounts of fees paid by those accounts. Accordingly, to address the potential conflict of interest outlined above, DDJ adheres to written initial order and allocation guidelines, which are designed to ensure the fair and equitable allocation of investment opportunities across all of DDJ's client accounts without regard to fee structure while also seeking to maintain consistent concentrations of positions across clients pursuing similar investment strategies. Pursuant to these allocation guidelines, a portfolio manager, in determining whether or not to place an order for a security that may be suitable for more than one client, will generally evaluate several

factors, in light of the facts and circumstances existing at time of trade, the most important of which is the investment strategy selected by the client and whether/how the security under consideration fits within such investment strategy. In addition, when choosing to place an order on behalf of any client, a portfolio manager will typically evaluate other factors, such as cash availability, ongoing cash inflows and outflows, specific investment guidelines and restrictions, appropriate position size, and applicable regulatory considerations. Accordingly, DDJ will not necessarily manage such portfolios the same at all times, and there is no requirement that DDJ use the same investment practices consistently across all portfolios. In particular, different client investment guidelines or restrictions will lead to the use of different investment practices for portfolios nonetheless employing a similar investment strategy. As a result, although DDJ manages numerous portfolios with comparable investment objectives, the investment decisions relating to these accounts, and the performance resulting from such decisions, differ from portfolio to portfolio.

In cases where DDJ does not allocate an order on a *pro rata* basis amongst the client accounts pursuing the same investment strategy as one another, DDJ requires that a member of the trading team designate a brief allocation rationale within the firm's trade order management system as to why the order deviated from a strict *pro rata* methodology. A member of the firm's compliance staff separately reviews a sampling of such rationales as part of the firm's annual compliance review conducted pursuant to applicable requirements under the Advisers Act.

Furthermore, certain client accounts that include a performance-based fee component may pursue more complex and legally intensive investment strategies. Accordingly, such accounts may receive a different allocation or weighting of certain investment opportunities compared with other accounts pursuing a less demanding or complex investment strategy (that may or may not include a performance-based fee component). In determining the order allocation for a security that may be suitable for more than one client, pursuant to DDJ's written allocation guidelines, DDJ portfolio managers are expressly prohibited from taking into consideration the compensation paid to DDJ potentially resulting from any performance-based fee attributable to certain client fee arrangements; rather, a portfolio manager will evaluate the factors set forth above (and, most importantly, the designated investment strategy pursued) in determining the allocation of a specific investment opportunity amongst all client accounts participating in an order (or whether a client participates at all), irrespective of fee structure. Any inappropriate favoritism of one client over another client constitutes a breach of DDJ's fiduciary duty and is prohibited.

#### Allocation of Executed Orders

Once DDJ has executed a trade on behalf of a client or clients, such trade will be allocated in accordance with the actual order placed by the portfolio manager(s), as documented within DDJ's trade order management system. In cases where an executed trade only partially fills a trade order, securities purchased or sold generally will be allocated amongst participating clients on a *pro rata* basis based on order size (subject to automatic rounding of odd-lot amounts by DDJ's trade order management system), unless otherwise approved by the Chief Compliance Officer (as further detailed in DDJ's written initial order and allocation guidelines). In such circumstances, the Chief Compliance Officer (or his designee) may approve a non-*pro rata* allocation if there is a limited supply for a particular security or investment opportunity, and a *pro rata* allocation would result in certain accounts receiving position sizes that the portfolio manager believes are too small to effectively manage given the parameters of the particular investment strategy pursued. In these cases, DDJ's portfolio managers will make allocations that reflect a number of other factors based on DDJ's good-faith assessment of the investment opportunity relative to the objectives, limitations, and

requirements of each client account. The involvement of the Chief Compliance Officer in such determinations serves as a check on the ability of a portfolio manager to improperly reallocate limited or more profitable investment opportunities to higher fee-paying accounts on a post-trade basis. Nonetheless, client accounts that either receive a less than *pro rata* or no allocation of an investment opportunity that performs well may experience lower performance returns overall as compared with other clients.

Furthermore, circumstances may arise prior to the settlement date whereby DDJ may desire to reallocate a pending transaction amongst participating client accounts. Examples may include an order that did not satisfy a particular client's investment guidelines but was not otherwise identified as problematic at the time of trade by the compliance rules programmed into DDJ's trade order management system, or an order that would breach an investment guideline as a result of ensuing market price movements or client account redemptions that occur on a post-trade but pre-settlement basis. Any such trade reallocation must be otherwise approved by the Chief Compliance Officer (or his designee) in a fair and equitable manner at all times consistent with DDJ's fiduciary obligations to each client affected by such reallocation.

Portfolios are monitored by DDJ's compliance personnel for consistency with client objectives and restrictions, and the Chief Compliance Officer conducts a review no less frequently than annually to confirm that DDJ has treated its client accounts fairly with respect to the allocation of investment opportunities.

#### Side-by-Side Management

DDJ does not manage any investment vehicles that have been established for the sole benefit of DDJ principals, employees, and/or other affiliates of the firm. However, DDJ as well as affiliates of DDJ, including its principals and other employees, may invest (and have invested), together with investors not affiliated with DDJ, as investors in certain pooled investment vehicles managed by DDJ. In particular, DDJ and certain of its employees provided seed capital to the DDJ Opportunistic High Yield Fund, DDJ's proprietary U.S. mutual fund, upon its launch in July 2015. DDJ allocates opportunities to each of its clients, including without limitation such pooled investment vehicles in which DDJ and its affiliates have invested, fairly and equitably in a manner that is consistent with the firm's written initial order and allocation guidelines.

As a result of different investment guidelines and restrictions (that are generally customized for each client account), the timing of inception of client accounts, ongoing client-directed cash inflows and outflows with respect to such accounts, and particular regulatory considerations (among other factors), DDJ may provide advice or take action with respect to the investments of one or more of its clients that may not be given or taken with respect to other clients pursuing similar overall investment mandates, objectives, and strategies. While DDJ aims to achieve similar portfolio characteristics amongst client accounts pursuing similar overall investment strategies, the aforementioned considerations typically will cause DDJ to not invest such accounts in exactly the same securities or instruments. As a result, such accounts may not otherwise achieve the same investment performance as one another.

### Investments by Clients in Different Layers of an Issuer's Capital Structure

From time to time, DDJ expects that its clients (including DDJ-managed pooled investment vehicles in which DDJ or its employees have invested directly) will hold interests in a portfolio company that are of a different class, type or seniority than, or otherwise potentially adverse to, the class, type or seniority of interests held by other DDJ clients. Similarly, from time to time, DDJ clients will hold multiple investments across the capital structure of an issuer of varying classes, types or seniorities, but will hold different proportions of each such investment. It is possible that the trading and investment activities of any DDJ client could conflict with the activities and strategies employed in managing the assets of any other client and accordingly affect the prices and availability of the securities and instruments in which a client invests. For example, one DDJ client may hold unsecured debt of an issuer while another DDJ client holds secured debt of the same issuer, resulting in one DDJ client holding an investment that is senior or junior to another client in the capital structure of such entity. In a restructuring, workout or other distressed scenario, the interests of such clients might be adverse to one another, and one such client might recover all or part of their investment while the other client does not. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, raise conflicts of interest concerns.

In addressing certain of the potential conflicts of interest described herein, DDJ may, but shall not be obligated to, take one or more actions on behalf of a client, including any one or more of the following: (i) causing a client to remain passive in a situation in which it is otherwise entitled to vote or take other action, which may result in the outcome of such vote or action being determined by (x) other investors or decision-makers in the same class of equity or debt securities (or another class of equity or debt), or (y) the vote or other action taken by another client; (ii) consulting with the client on such matter or otherwise requesting that such client (or, in the case of a pooled investment vehicle, the underlying investors therein) approve such matter; (iii) establishing ethical screens or information barriers to separate DDJ investment professionals or assigning different teams of DDJ investment professionals, supported by legal counsel and other advisers, as DDJ deems appropriate, to act independently of each other in representing different clients or clients that hold different classes, series or tranches of an issuer's capital structure; (iv) as between two clients, seeking to ensure that such clients own interests in the same securities or financial instruments and in the same proportions so as to preserve an alignment of interest; or (v) causing a client to divest itself of a security or financial instrument or particular class, series or tranche of an issuer's capital structure it might otherwise have continued to hold. However, clients of DDJ (as well as investors in DDJ's pooled investment vehicles) should be aware that conflict resolution in such instances may result in one or more clients receiving less consideration and/or less favorable treatment with respect to such investments than they may have otherwise received in the absence of such a conflict of interest.

DDJ recognizes that conflicts of interest arise when clients invest in different levels of the capital structure of the same portfolio companies, and will endeavor to mitigate such conflicts by treating each of its clients in as fair and equitable a manner as possible in light of the particular facts and circumstances. The actions taken by DDJ on behalf of a client are expected to vary based on the particular facts and circumstances surrounding each investment by two or more clients in different classes, series or tranches of an issuer's capital structure, and, as such, investors should expect some degree of variation, and potential inconsistency, in the manner in which potential or actual conflicts are addressed. While DDJ seeks to resolve the conflicts in an impartial manner, there can be no assurance that DDJ's own interests will not influence its conduct.

### Investments by Clients in Privately-Negotiated Transactions

A potential conflict of interest involving client allocations may become more acute in the case of a privately-negotiated transaction in which DDJ and/or its affiliated persons may have a heightened pecuniary interest (*e.g.*, where DDJ may be incentivized to overreach certain clients either by including them in such transaction even though it would not be consistent with their investment objective, or by negotiating certain terms of the private transaction that inure to the benefit of certain clients at the expense of others). DDJ has developed compliance procedures designed to mitigate conflicts of interest associated with such transactions, particularly with respect to any follow-on investment opportunity that arises as a direct result of an existing investment(s) already held by one or more of DDJ's clients. In these circumstances, DDJ's portfolio managers will first endeavor to allocate the ensuing follow-on transaction on a *pro rata* basis to those clients that hold such existing investment(s) in the issuer based on the market value of such investment(s) at the time of such allocation, with excess capacity, if any, then allocated to clients that do not otherwise hold an existing investment in the issuer in a manner consistent with the allocation guidelines.

DDJ believes that such allocation methodology with respect to privately-negotiated transactions mitigates any conflict of interest otherwise associated with the possibility that DDJ may be incentivized to allocate an attractive follow-on investment to certain clients (*e.g.*, those that pay DDJ higher fees or those in which DDJ and/or its affiliated persons otherwise hold a proprietary interest) when such opportunity should instead be first allocated to those clients that held an existing investment(s) in the issuer. Similarly, such methodology also mitigates any conflict otherwise associated with the possibility that DDJ may be incentivized to disadvantage certain client accounts not otherwise invested in an issuer by allocating an investment to those clients, a principal purpose of which is to protect the value of an existing investment already held by other clients (*e.g.*, in the case of certain stressed or distressed issuers).

With respect to any such privately-negotiated transaction, the DDJ legal professional assigned to the transaction shall review the proposed final allocation. Furthermore, the DDJ Chief Compliance Officer will also conduct an assessment with respect to whether DDJ and/or its affiliated persons have a material pecuniary interest in any client or account that is investing, alongside a client that is subject to the requirements of the 1940 Act, in any such privately-negotiated transaction.

To the extent that DDJ concludes that additional disclosure with respect to such proposed allocation is warranted, DDJ shall inform any affected clients and, to the extent appropriate in the discretion of the Chief Compliance Officer, obtain their approval prior to their inclusion in such privately-negotiated transaction. Any such determination by DDJ shall be based on the applicable facts and circumstances of the allocation (including, without limitation, the magnitude of any perceived or actual conflict of interest associated with the final allocation amongst participating clients together with an evaluation of any applicable regulatory considerations for such clients, and in particular those clients subject to the requirements of the 1940 Act). For the avoidance of doubt, DDJ will not otherwise proceed with a privately-negotiated transaction on behalf of its clients in the event that a DDJ legal professional concludes that it would otherwise run contrary to the requirements of applicable law (including the 1940 Act).

### Cross Transactions: Principal Transactions

On occasion, subject to applicable restrictions set forth in underlying management agreements as well as applicable law (*e.g.*, with respect to mutual fund clients, Rule 17a-7 promulgated by the SEC under the 1940 Act), DDJ may direct a client to sell securities to, or buy securities from, another client through an agency cross transaction in which neither DDJ (nor any related person) will receive any compensation. Such cross transactions are executed typically for purposes of rebalancing the portfolios of the designated clients or for other reasons consistent with the investment objectives and guidelines of such clients such that the portfolio compositions of clients pursuing similar investment strategies remain substantially similar. Cross transactions enable DDJ to execute a trade between two clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the secondary market as well as saving commission-related costs for both accounts. Historically, however, the volume of cross transactions executed by DDJ with respect to its client accounts has been very low relative to the firm's overall trading activity.

Cross trades present a potential conflict of interest because of the prospect that DDJ may favor one transacting client account (or, in the case of a principal transaction described below, DDJ) over another client account; any such favoritism would run contrary to DDJ's duty of loyalty, which requires that DDJ not subordinate the interests of its clients to its own. To address this potential conflict of interest, prior to the execution of any cross transaction, DDJ will determine that the transaction is in the best interests of each client account or accounts involved based on their respective investment objectives and portfolio characteristics. Specifically, DDJ will evaluate the expected benefits to each client of effecting the cross trade compared with placing separate trades in the open market (*e.g.*, evaluating the reduced transaction costs expected to be saved by the clients by participating in such cross trade). Additionally, the DDJ Chief Compliance Officer (or his designee) must review and approve each cross trade prior to its execution to confirm adherence with internal procedure as well as to appropriately mitigate any actual or potential conflicts of interest that are identified.

DDJ will generally attempt to execute any such cross transaction through a broker-dealer at the midpoint between the bid and ask quote of an independent broker-dealer at the time of such execution, subject to payment of any applicable brokerage commission (which commission will be split evenly between the participating clients). Typically for any such cross trade, DDJ has been successful in negotiating with the executing broker a more favorable all-in commission payment compared with what DDJ believes otherwise would have been paid by each client had DDJ executed the transaction on the open market. To the extent that DDJ is unable to obtain an independent market price provided by a broker-dealer with respect to such security, DDJ will obtain the consent of each affected client after the disclosure of all material facts prior to the execution of such transaction at the then-current fair value or other price agreed upon by each client. In all cases, DDJ receives no compensation for effecting a cross trade (which further serves to mitigate any potential conflict of interest associated with such a transaction). DDJ maintains a log that sets forth the relevant details of each cross transaction executed by the firm on behalf of its clients.

DDJ does not execute cross transactions on behalf of its clients that are subject to the requirements of ERISA. In addition, DDJ has adopted certain compliance procedures designed to prohibit "parking" of securities or other pre-arranged trading in a manner contrary to its cross trading procedures as well as applicable law.

In addition, in limited circumstances, DDJ may also execute a principal transaction directly with a client account, in compliance with Section 206(3) of the Advisers Act, with respect to an illiquid investment for which there is no active secondary trading market and the underlying client has consented to sell such position to DDJ after full and fair disclosure of all material facts as well as how DDJ has addressed any potential conflict of interest associated with such transaction. In these few instances, DDJ has executed such a principal transaction for purposes of liquidating a client portfolio in full, thereby enabling the client to finally wind-down its account with DDJ, or otherwise to cause a client account to comply with modified investment objectives and guidelines that were revised at the client's direction. Similar to all cross trades executed by DDJ on behalf of its clients, principal transactions must also be approved in advance by the Chief Compliance Officer (or his designee), and are likewise reflected by DDJ in the log identified above.

## **Item 7      Types of Clients**

As described above in Item 4 of this Brochure, DDJ provides discretionary investment advice directly to various institutional clients, including corporate domestic and foreign pension plans, public pension and retirement plans, and Taft-Hartley plans. In addition, DDJ also serves as investment adviser to the DDJ Opportunistic High Yield Fund, a U.S. open-end registered investment company (U.S. mutual fund) registered with the SEC pursuant to the 1940 Act, as well as to various pooled private investment vehicles that are generally organized in the form of domestic limited partnerships and that are exempt from registration under the 1940 Act. Furthermore, DDJ acts as investment sub-adviser to certain U.S. and non-U.S. investment advisers and asset managers. Finally, DDJ maintains a single client account on behalf of a closely-held private family office for which DDJ does not exercise any investment discretion.

The minimum size for opening and maintaining a separately managed account with DDJ is \$50,000,000; however, such minimum amount may be waived by DDJ in its sole discretion. The minimum investment amount by an investor in a pooled investment vehicle, including the DDJ Opportunistic High Yield Fund, varies, depending on the specific terms of each pooled investment vehicle. In certain circumstances, such minimum amount may also be waived by DDJ (or by the DDJ-affiliated general partner of such investment vehicle, as applicable).

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

### Method of Analysis

Since the firm's inception in 1996, DDJ has employed a consistent investment philosophy with deep core principles that have served as the nucleus for each of the investment strategies that DDJ implements on behalf of its clients. This philosophy is predicated on DDJ's fundamental belief that the high yield fixed income market, and in particular the segment encompassing lower-rated high yield bonds and leveraged loans, is markedly inefficient, and, as a result, offers compelling risk-adjusted investment opportunities.

DDJ attempts to exploit these inefficiencies in the lower-rated segment of the leveraged credit market by adhering to a "bottom-up", fundamentally-oriented investment process that focuses heavily on downside protection. The objective of this process is to derive an accurate real-time valuation of a company and then target those securities in its capital structure that offer strong return potential in excess of broad-based high yield indices coupled with a significant margin of safety.

DDJ generally approaches new investments in prospective portfolio companies by creating a comprehensive analytical overview focused on such company's current and future business prospects. DDJ's fundamental analysis of a particular investment opportunity, which is the cornerstone of DDJ's investment philosophy with respect to each of its investment strategies, typically focuses on the following three components:

1. Cash Flow: An evaluation of a company's ability to both (a) service its fixed obligations, including interest, capital expenditures, and working capital needs, and (b) generate free cash flow that will enable it to repay its debt or reinvest capital. DDJ believes that understanding an issuer's discretionary free cash flow is important in assessing downside risk in the context of an adverse credit event that causes liquidity or cash flow to deteriorate.
2. Enterprise Value Coverage: An analysis of a company's overall enterprise value relative to its liabilities and equity value ("loan to value"). DDJ may analyze a company's value to prospective acquirer(s) of such business in whole or in pieces under a variety of economic assumptions.
3. Legal Protections and Contractual Remedies: An assessment of the contractual rights and remedies set forth in relevant legal documents governing a particular investment, such as a loan agreement, bond indenture, and/or intercreditor agreement.

Once a potential investment opportunity is identified, a DDJ research analyst will generally prepare a "first pass" analysis outlining the company's business model and financial condition, together with a proposed investment thesis. If a senior investment professional agrees with the analyst's recommendation, the analyst will undertake a more in-depth "second pass" analysis in order to create an overall financial assessment of the investment opportunity and verify the investment thesis.

This second pass, or "deep dive", includes more extensive due diligence on the business and the securities that are being considered for investment. During this stage, DDJ's analysts may meet or conduct teleconferences with target company management, as well as with competitors, customers, suppliers and other third parties that are familiar with the company or industry, in order to acquire a more thorough understanding of the relevant aspects of the underlying business and corresponding investment opportunity. At this time, the research analyst is tasked with identifying all material risks related to the investment opportunity (including, without limitation, risks related to environmental, social and governance ("ESG") factors) in an effort to evaluate the overall risk-reward profile of the proposed investment.

Utilizing a variety of information sources, DDJ analysts perform this "deep dive" by evaluating a target company's financial position with a particular focus on free cash flow generation capability, liquidity position for the short and long term, intrinsic business valuation and asset coverage. With respect to the subject company's fixed income securities, DDJ generally considers the current yield, yield-to-maturity and yield-to-worst-call, taking into account DDJ's risk assessment of the targeted class, based on the liquidity and valuation analyses described above. DDJ will also typically analyze the anticipated treatment of such class of liabilities in the event of adverse circumstances, such as a bankruptcy filing by the issuer.

DDJ generally takes a proactive role in sourcing investment opportunities in businesses in the below investment grade universe, including those companies that may be experiencing some degree of financial distress but nonetheless possess a competent management team, sustainable market position (*i.e.*, a "reason to exist"), and/or adequate asset value. Analysts then rank possible



investment opportunities within their respective industries based on the anticipated return compared with the risk incurred. Following the completion of due diligence, the portfolio manager(s), in consultation with the applicable analyst responsible for recommending the investment as well as, where appropriate, other senior members of the DDJ investment team, makes a final decision on whether to proceed with the proposed investment.

Ultimately, this relative value analysis, whereby each current portfolio holding as well as new buy ideas are assessed based on an expected yield versus risk-incurred basis, enables DDJ's portfolio managers to generate their buy/sell list for their respective client portfolios under management. Important factors in this analysis typically include:

- Credit risk: the risk of loss due to a debtor's inability to service its fixed income obligations;
- Legal (or structural) risk: the degree of contractual rights (*e.g.*, covenant protections) associated with a given tranche of an issuer's debt securities; and
- Liquidity risk: the likelihood that decreased trading or increased aversion in the marketplace will lower the relative value of an investment.

In order to further augment DDJ's research process with respect to individual investment opportunities as well as its overall risk management of its investment strategies, DDJ maintains an Investment Review Committee, which comprises the members of the firm's portfolio management team as well as its in-house transactional attorney. This committee provides a forum to discuss both prospective investment opportunities for, and existing positions held by, DDJ's clients; challenge investment theses with respect to existing portfolio company investments; review the consistency of DDJ's investment process; address emerging developments in the markets; and assess certain risk metrics (*e.g.*, portfolio liquidity or aggregate ESG exposures) across all client portfolios on a strategy- or firm-wide basis.

When DDJ intends to exit an investment, DDJ causes its clients to adhere to a rigorous sell discipline in pursuing their respective investment strategies. Generally, DDJ will cause its clients to sell a security under three circumstances:

1. Credit Sell: If DDJ believes that a fundamentally adverse change is occurring in a company's financial situation or competitive positioning, DDJ will attempt to aggressively sell the position out of its client portfolios.
2. Relative Value Swap: If DDJ believes that a position can be replaced with another investment opportunity that offers a more compelling return-versus-risk proposition given the particular investment strategy that is being pursued, DDJ will attempt to prudently sell such existing position from client holdings as part of a relative value swap.
3. Compliance Sell: If positions approach internal or contractual limits due to a relative change in value or otherwise, DDJ will generally sell down the applicable position in order to either maintain compliance with investment guidelines or achieve appropriate diversification levels within the applicable portfolio.

DDJ will also cause a client to exit an investment if the client has expressed a desire to withdraw cash from the client account or otherwise reallocate resources among investment strategies pursued by DDJ.

## Significant Investment Strategies

DDJ actively manages three significant investment strategies on behalf of its clients:

- U.S. Opportunistic High Yield: The investment objective of DDJ's flagship strategy is to outperform the broader high yield market by employing a bottom-up, fundamentally-oriented investment process that primarily targets middle market opportunities in the lower tier (*i.e.*, rated single B and below) of the non-investment grade credit markets. The opportunistic high yield strategy employs a deep value approach with the flexibility to invest in a wide range of securities consisting of liquid and illiquid high yield bonds, syndicated loans, direct private loans (including second lien loans), certain defaulted securities, convertible bonds, preferred equity, and other equity-linked securities typically issued in connection with a high yield offering. Portfolios are generally concentrated in 70-90 issuers across a wide range of industries primarily located in the United States and (to a much lesser extent) Canada with a significant allocation to high conviction investments.
- U.S. Upper Tier High Yield: This strategy aims to outperform the BB/B rated segment of the U.S. high yield bond market by employing a bottom-up, fundamentally-oriented investment process that focuses heavily on downside protection. An evaluation of topical ESG factors are deeply integrated in the associated investment process. Portfolios pursuing this strategy have limited exposure to CCC-rated debt issues, seek to avoid defaulted securities, and may or may not have exposure to syndicated loans depending on specific client guidelines. Such investments are generally liquid. Portfolios typically consist of 80-110 issuers across a wide range of industries.
- Total Return Credit: This strategy attempts to produce a high level of total return by targeting investments in all securities within the capital structure of an issuer (and, in particular, leveraged middle market companies). To achieve this objective, DDJ employs a deep value approach and retains a high degree of flexibility to make tactical allocations to the most compelling opportunities in the market, including all types of investments targeted by the opportunistic high yield strategy with a greater emphasis on direct private loans (including second lien loans). In addition, depending on specific client guidelines as well as market conditions, DDJ may make limited allocations to distressed debt as well as to reorganized and leveraged equities. The strategy may target liquid and illiquid investment opportunities. Portfolios are typically concentrated in 35-55 issuers across a range of industries primarily located in the United States and (to a much lesser extent) Canada with a significant allocation to high conviction investments

In addition to the foregoing significant investment strategies, DDJ has customized the investment guidelines for several client accounts in an effort to accomplish the clients' desired investment objectives. While the specific investment approach differs from portfolio to portfolio (*e.g.*, portfolios may exhibit a greater tolerance for less liquid but higher-yielding investments; target predominantly bank loans; or create a "blend" of DDJ's aforementioned U.S. opportunistic high yield and upper tier U.S. high yield investment strategies), in each case, DDJ maintains its focus on investing within the broader high yield market. Given the high degree of customization involved with respect to these particular client accounts, DDJ does not characterize any of these individual client solutions as a significant investment strategy (for purposes of this Brochure), but nonetheless does consider the management of such client accounts to be significant to the overall success of the firm.

None of DDJ's significant investment strategies, or any of its customized client solutions, involve the frequent trading of securities.

### Material Risks

#### **Investing in securities and other obligations involves a substantial risk of loss that clients of DDJ should be prepared to bear.**

The following is a summary of certain significant risks particularly associated with the investment strategies pursued by DDJ on behalf of its clients; however, depending on the specific investment strategy or approach to be pursued by DDJ on behalf of a client, there may be additional risks to investing with DDJ that may be described in supplemental materials provided to the prospective client at the time of its investment with DDJ (including, without limitation, any applicable private offering memorandum with respect to investors in certain private funds managed by DDJ, and/or the prospectus for the U.S. mutual fund managed by DDJ). Furthermore, certain of these risks may not apply to each strategy pursued by DDJ on behalf of its client portfolios.

- Risks related to investments in high yield debt securities: DDJ clients typically invest in high yield fixed income securities, such as bonds, which instruments may be unrated, rated below investment grade or in certain cases in default, and as such are considered speculative and may involve greater risk of loss than higher-rated debt securities. The lower rating of securities in the high yield sector reflects a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal and interest. Furthermore, the prices of such securities are sensitive to changes in an issuer's creditworthiness. Issuers of lower-rated debt securities may have greater difficulty servicing their payment obligations, meeting projected operational goals, and/or obtaining additional financing. As with other types of debt instruments, high yield debt securities involve a heightened risk of loss in the case of default or insolvency of the obligor, particularly if the obligation is unsecured.
- Risks related to investments in loans: There are a number of risks associated with an investment in bank loans, including credit risk, interest rate risk, liquidity risk and prepayment risk. Lack of an active trading market, restrictions on resale, irregular trading activity, wide bid/ask spreads, and extended trade settlement periods may impair the ability to sell bank loans within a desired time frame or at an acceptable price. Extended trade settlement periods may result in cash not being promptly available to the portfolio following the execution of a sale transaction. As a result of such illiquidity, DDJ clients may have to sell other investments to raise cash to meet their obligations.

Investments in below investment grade loans carry similar credit risks to investments in below investment grade (high yield) bonds. Changes in the financial condition of the borrower or economic conditions or other circumstances may reduce the capacity of the borrower to make principal and interest payments on such instruments and may lead to payment defaults, thereby reducing the income to a portfolio as well as a reduction in the value of the principal amount of the loan. The value of senior secured bank loans is supported by the accompanying collateral; however, the value of such collateral may be insufficient to cover the amount owed to a DDJ client portfolio. Furthermore, in the event of bankruptcy of a borrower, the portfolio could experience delays or limitations in its ability to realize the benefits of any collateral securing a loan.

Loans generally are subject to legal or contractual restrictions on resale. The liquidity of loans, including the volume and frequency of secondary market trading in such loans, varies significantly depending on then-current market conditions as well as among individual loans. For example, if the credit quality of a loan unexpectedly declines significantly, secondary market trading in that loan can also decline for a period of time. During periods of infrequent trading or where there may be heightened distressed or “forced” selling activity (such as the current environment where market volatility has increased primarily as a result of the COVID-19 outbreak), valuing a loan can be more difficult, as prices provided by external pricing services may not reflect the actual fair value of the assets. Furthermore, buying and selling a loan at an acceptable price can be more difficult and delayed. Difficulty in selling a loan in particular can result in a loss to DDJ clients. Finally, bank loans may not be considered “securities” and, as a result, DDJ clients that have invested in such loans may not be entitled to rely on the anti-fraud protections under the federal securities laws but rather may have to resort to state law and/or direct claims against a counterparty or underlying issuer.

- Risks related to settlements of loans: Clients may experience delays in the settlement of certain loan transactions, which themselves are more complicated, are paperwork intensive, and require greater internal resources to settle compared with bonds, particularly in the case of loans that are or become distressed. Unlike the securities markets, there is no central clearinghouse for loan trades. Such delays may prevent a client from obtaining liquidity of certain assets within a desired timeframe. Furthermore, pursuant to certain insolvency laws, a counterparty may have the ability to reject or terminate an unsettled loan transaction. If a counterparty rejects an unsettled transaction, a client might lose any increase in value with respect to such loan that accrued while the transaction remained unsettled.

Furthermore, the agent bank is the bank in the loan syndicate that undertakes the bulk of the administrative duties involved in the day-to-day administration of the loan, including providing approval prior to the settlement of each loan transaction on the secondary market. In the event of the insolvency of an agent bank, a loan transaction could be subject to heightened settlement risk, and the investment itself could be subject to risk of interruptions in the administrative duties performed in the day-to-day administration of the loan.

- Risks related to second lien and unsecured loans: In addition to the particular risks generally associated with investments in corporate loans described above, investments in second lien and unsecured loans, which are targeted in multiple DDJ investment strategies, entail additional risks, including, but not limited to (i) the subordination of a DDJ client’s claims to a senior lien in terms of the coverage and recovery from the collateral; and (ii) with respect to second lien loans, the prohibition of or limitation on the right to foreclose on a second lien or exercise other rights as a second lien holder, and with respect to unsecured loans, the absence of any collateral altogether on which a DDJ client may foreclose to satisfy its claim in whole or in part. In certain cases, therefore, no recovery may be available from a defaulted second lien or unsecured loan held by a DDJ client account.
- Risks related to investments in equity securities: Certain DDJ clients may invest in equities of companies, which are generally acquired as a result of a restructuring of previously held debt obligations or otherwise in a secondary market transaction. The value of such equities, which oftentimes are not liquid, will rise and fall in response to the activities of the company that issued the securities, general market conditions, and/or specific economic or political

conditions. Equity investments, as the most junior security in a company's capital structure, generally involve a high risk of loss and typically are subject to significant volatility in price. This risk of loss is further elevated because DDJ investment strategies may target businesses that may be experiencing or recently experienced financial distress, or may be in, entering, or emerging from, bankruptcy proceedings.

- Risks related to investments in leveraged and financially troubled companies: DDJ may target investments in companies that are highly leveraged; such leverage in turn will increase the exposure of such companies to adverse economic conditions, such as a downturn in the economy or a particular industry. These companies may be subject to restrictive financial and operating covenants within their debt agreements, which may restrict their range of operating activity and impair these companies' ability to finance their future operations and capital needs. Accordingly, the flexibility of these companies to respond to changing business and economic conditions as well as to business opportunities may be limited; furthermore, in light of current economic conditions following the COVID-19 outbreak, the ability of these types of companies to perform as DDJ anticipates may be significantly impaired. As a result, a client may suffer a partial or total loss of any capital invested in such a company, which, depending on the size of such client's investments, could materially adversely affect the return on the capital of such client.
- Risks related to bankruptcies and balance sheet restructurings of portfolio companies: Given the focus of each of the investment strategies pursued by DDJ, DDJ may target securities and other obligations of issuers that are in financial difficulty, and/or may be in, entering, or emerging from, bankruptcy proceedings. Especially in the current economic climate following the COVID-19 outbreak, an increasing number of portfolio companies may encounter financial difficulty and/or be required to restructure or otherwise enter bankruptcy protection. Bankruptcy or other insolvency proceedings are highly complex and may result in unpredictable outcomes. In any investment opportunity involving a work-out, liquidation, reorganization, bankruptcy or similar transaction, the risk that the contemplated transaction may be unsuccessful is elevated. Similarly, if an anticipated transaction does not in fact occur, DDJ may be required to unexpectedly sell the investment at a loss. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. Because there is a substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which DDJ client portfolios may invest, there is a potential risk of loss of the entire investment in such companies, as well as the risk that such clients may be required to accept cash or newly-restructured securities with a value less than the client's original investment. Furthermore, the eventual monetization of the initial investment may occur over a prolonged period. Under such circumstances, the returns generated from such client's investments may not compensate a client adequately for the risks assumed.
- Risks related to liquidity of investments: From time to time, there may be little or no active market for some of the securities or other obligations purchased by DDJ clients. In addition, lower-rated debt securities may be thinly traded, adversely affecting the prices at which these securities can be sold and resulting in high transaction costs. Some of the securities and other obligations purchased by DDJ clients may have been issued in private placement transactions and accordingly may be subject to legal or contractual restrictions on resale in accordance with applicable securities laws. In some instances, the sale of securities and other obligations owned by DDJ clients may require lengthy negotiations. In addition, a downturn or

contraction in the overall economy or in the capital markets, which may be accompanied by severe technical dislocations in the high yield market in particular, may further disrupt DDJ's ability to effectively trade investments on behalf of its client accounts; in light of the COVID-19 pandemic, the risk of such an outcome in the high yield market is further elevated in the current environment. As a result, an exit strategy that appeared to be viable when an investment was initiated may be precluded by the time that the investment is ready to be realized by DDJ. The presence of any of these factors may limit liquidity and, consequently, DDJ may not be able to dispose of a portfolio investment when it desires to do so or at an attractive price. The adverse results may be particularly acute for investors within commingled funds managed by DDJ, especially to the extent that DDJ is required to dispose of more liquid investments from such products in order to meet outstanding redemption requests by exiting investors.

- Small and Medium Capitalization Companies: DDJ frequently targets loans, bonds or other instruments of companies with small- to medium-sized market capitalizations. Although DDJ believes that these investments often provide significant potential for both a high level of income as well as capital appreciation, they also involve higher risks in some respects than do investments in larger companies, including more volatility than large-capitalization investments and a higher risk of bankruptcy or insolvency. In addition, due to thin trading in the investments of some smaller-capitalization companies, an investment in such companies may be (or may become) illiquid.
- Risks related to investments in restricted securities: DDJ may be prevented from buying or selling certain publicly traded securities if DDJ acquires material non-public information with respect to the issuer of such securities. In such circumstances, the issuer of such security will be placed on DDJ's "Restricted List", and DDJ will not trade securities issued by such issuer in secondary transactions until the material, non-public information becomes public and/or no longer material, or trading is otherwise permitted in accordance with applicable law. The length of time that DDJ may be subject to such restrictions on trading may be significant.
- Risks related to interest rates: Interest rate risk is the risk that fixed income investments will decline in value because of changes in market interest rates. Market interest rates in the United States and certain other countries are extremely low by historical standards. When market interest rates rise, the market value of fixed-interest rate securities generally will fall, as investors demand a higher annual yield from future distributions. Fixed-interest rate debt securities are typically an important element of each of DDJ's investment strategies. Rising interest rates also generally increase the costs of obtaining financing, which could cause the value of high yield fixed income investments purchased by DDJ on behalf of its clients to decline. Furthermore, the market price of floating rate securities, such as bank loans, is generally based on LIBOR (or a similar benchmark rate), and accordingly may also be susceptible to decline in the event that market interest rates decline.
- Risks related to investment volatility: A principal risk in investing in high yield and potentially stressed or distressed securities is the traditional volatility in the market prices of such securities. At present, following the outbreak of the COVID-19 pandemic, the high yield market (together with other markets) has been extremely volatile, resulting in significant price movement with respect to both high yield bonds and leveraged loans that are frequently targeted by DDJ as investments for its clients. Fluctuations or prolonged

changes in the price volatility of such securities, therefore, can adversely affect the value of investments held by a DDJ client.

- Risks related to managing a concentrated investment portfolio: Given the research-intensive nature of the firm's investment strategies, client portfolios will be concentrated amongst a relatively small number of high yield, financially troubled or potentially distressed issuers. Accordingly, any single loss may have a significant adverse impact on the investment returns of DDJ's clients, and client assets may be subject to greater risk of loss than if they were more widely diversified. In addition, certain client portfolios will be more susceptible than more broadly diversified portfolios to any single economic, market, political or regulatory event affecting DDJ's portfolio companies. Furthermore, concentration in financially troubled or distressed companies may subject DDJ client portfolios to greater price volatility as compared with a more diversified portfolio of investments.
- Risks related to client account wind-down or dissolution. In connection with a decision by a DDJ client to wind-down or otherwise terminate its advisory relationship with DDJ, such client may instruct DDJ to liquidate their remaining investment portfolio. In the case of a dissolution of a DDJ client (*e.g.*, an investment fund), such event may require DDJ to sell the remaining investments held within such client's portfolio. As a result of such a forced or untimely liquidation of remaining assets (in particular with respect to any less liquid or illiquid investments that do not have an active secondary market), the returns of such client may be negatively affected. In addition, the forced liquidation of a client's portfolio may also negatively affect the value of the same investments that are held by other DDJ clients, which are priced on a mark-to-market basis, thereby resulting in a loss to such clients as well.
- Risks related to litigation: Investing in below investment grade, and distressed securities in particular, can become a contentious process. Different investor groups may have qualitatively different, and frequently conflicting, interests. DDJ's investment activities may include actions that are hostile in nature and will subject its clients to the risks of becoming involved in litigation by third parties. This risk may be greater where DDJ's clients exercise either control or a significant influence over a company's direction (*e.g.*, by holding a substantial percentage of a particular class of an issuer's fixed income securities). The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments may be borne by a client and could be significant.
- Risks related to unavailability of investment opportunities: Markets for securities in DDJ's investment universe are highly competitive. DDJ clients compete for investment opportunities with a significant number of sophisticated financial institutions and private funds as well as various institutional investors. Some of these competitors are larger and have greater financial, human and other resources than DDJ, and therefore may in certain circumstances maintain a competitive advantage over DDJ. Because of this competition, there may be fewer attractively priced investment opportunities than DDJ has observed in the past, which could have an adverse impact on both the ability of DDJ to meet its clients' investment objectives or the length of time that is required for new clients to become fully invested. There can be no assurance that the returns on the investments made by DDJ on behalf of its clients will be commensurate with the risk of investing with DDJ.
- Risks related to market disruptions: In the event of widescale market disruptions and other extraordinary events in which historical pricing relationships (on which DDJ bases a number

of trading positions) become materially distorted (including, without limitation, existing market disruptions caused by the ongoing COVID-19 pandemic), client portfolios managed by DDJ may incur major losses. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets, many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. In addition, new investment opportunities on attractive terms are typically more limited during market disruptions. While DDJ expects that the current industry environment will yield attractive investment opportunities for its clients over the long-term, there can be no assurances that conditions in the global financial markets, particularly in light of the uncertainty associated with the COVID-19 outbreak, will not further worsen and/or adversely affect the investments of DDJ's clients, their access to capital, or their overall investment performance. In the event of price deterioration within the high yield market or the onset of a global recession more generally, the value of a client's investments may not appreciate as projected or may suffer a loss.

- Risks related to issuer misrepresentations and fraud: DDJ's implementation of its investment strategies, which are based on a fundamental analysis of an issuer's financial condition, relies to a material extent on the financial information made available by the management of the issuers of securities in which DDJ client accounts invest, as well as the related representations and warranties made by such issuer in the underlying credit documentation. DDJ generally does not have the ability or resources to independently verify or audit the financial information disseminated by the numerous issuers in which its client accounts may invest, and accordingly it is dependent upon the integrity of both the management of these issuers and such issuers' financial reporting process in general. Recent industry events have demonstrated that investors may incur material losses as a result of corporate mismanagement and fraud as well as accounting and reporting irregularities by issuers of both debt and equity securities.
- Risks related to systems and other operational disruptions: DDJ relies extensively on computer systems to trade, clear and settle securities transactions, to evaluate securities based on real-time trading information, to maintain ongoing compliance with applicable client investment guidelines, to monitor the performance of client portfolios, to perform applicable back-office accounting functions, and to generate reports that are critical to the oversight of its investment management activities. In addition, certain of DDJ's operations interface with or depend upon systems and services (including so-called "cloud" based storage and other services) operated by third parties, including client custodians as well as various market counterparties and third party data providers. Although DDJ has established a formal third party vendor monitoring program, DDJ's effective management of its client portfolios is nonetheless susceptible to a defect or failure in any of these systems that are provided by vendors and other third parties. Accordingly, the failure of any of these systems, regardless of whether or not DDJ is at fault, could result in investment losses to its clients. In addition, DDJ is subject to the risk that such systems cease to be available, for example, due to the insolvency of the provider, the discontinuation of services or software updates, or the interruption of communication access (including, without limitation, as a result of the ongoing COVID-19 outbreak that has presently disrupted many vendors within the investment management industry as well as the economy more globally). In such circumstances, DDJ would seek to obtain equivalent hardware, software and services from an alternative supplier, to the extent practicable, which could take time to accomplish and which could also result in investment losses to clients.



- Risks related to “cybersecurity” incidents: DDJ’s operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. Although DDJ both employs protective measures to safeguard its data, and attempts to modify and update them as circumstances warrant, the security of its computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code, and other similar events that could have a security impact. Additionally, breaches of DDJ’s information security system may occur through intentional or unintentional acts by those having authorized or unauthorized access to DDJ’s or its clients’ confidential or other information. Any such failure or breach could have a material adverse effect on DDJ’s clients, DDJ and their affiliates. For example, systems failures, information security incidents or cybersecurity breaches could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades, and cause inaccurate reports, which may affect the ability of DDJ to accurately monitor its clients’ investment portfolios and risks. Cybersecurity breaches may cause (i) disruptions and impact business operations, potentially resulting in financial losses to DDJ clients; (ii) interference with DDJ’s ability to calculate the value of a client’s investment; (iii) impediments to trading; (iv) the inability of DDJ and other service providers to transact business; (v) violations of applicable privacy and other laws; (vi) regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs; and (vii) the inadvertent release of confidential information. Furthermore, depending on an assessment of the evolving nature of cybersecurity threats, DDJ may be required to expend significant additional resources to modify its existing protective measures or to investigate and remediate vulnerabilities or other exposures arising from operational and security risks. Finally, notwithstanding the adoption of certain information security procedures, DDJ may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by DDJ, which may adversely affect the interest of DDJ’s clients.
- Risks related to natural disasters or other catastrophic events: DDJ’s business operations are subject to interruption by fire, power shortages, pandemics (including, without limitation, in connection with the ongoing outbreak of COVID-19 in the United States), natural disasters and other events beyond its control. In an effort to minimize the impact associated with such unpredictable events, DDJ maintains a robust disaster recovery plan. Such plan provides DDJ with access to a dedicated disaster recovery facility located approximately 25 miles from its office location. Moreover, the firm’s virtual private network (“VPN”) enables DDJ employees to access the DDJ network and perform their job responsibilities while working remotely (e.g., from their respective homes). However, such recovery plan, which has been tested by DDJ numerous times, could be insufficient or otherwise fail, especially in the case of a widespread or catastrophic event (such as the COVID-19 outbreak, which has affected not only DDJ and its personnel but also the firm’s critical vendors and counterparties). The onset of such an event, coupled with the failure of the DDJ disaster recovery plan, may make it difficult or impossible for DDJ to deliver its advisory services to its clients in a timely and capable manner. As a result, during any such disruption, portfolios managed by DDJ on behalf of its clients may suffer losses.
- Risks related to counterparty exposure: DDJ executes its transactions in primarily the “over-the-counter” or “inter-dealer” markets. The participants in such markets typically are not subject to the same level of credit evaluation and regulatory oversight as are members of

“exchange-based” markets. As a result, DDJ’s clients are exposed to the risk that a counterparty will not settle a transaction due to a credit or liquidity problem, thus causing such clients to suffer a loss. In addition, in the case of a counterparty default, clients could become subject to adverse market movements while replacement transactions are executed. Such “counterparty risk” is accentuated where DDJ has concentrated its transactions with a single counterparty or a small group of counterparties. DDJ is typically not restricted from dealing with any particular counterparty or from concentrating any or all of its client transactions with one counterparty. Moreover, DDJ has a limited internal credit function to evaluate the creditworthiness of its counterparties. The ability of DDJ to transact business with any one or more counterparties, the absence of a regulated market to facilitate settlement, and the lack of complete evaluation of such counterparties’ financial capabilities may increase the potential for losses by DDJ’s clients.

- Risks related to reliance on certain key persons: The investment performance achieved by DDJ on behalf of its clients depends largely on the skill of key DDJ personnel, including, in particular, David Breazzano, the firm’s President and Chief Investment Officer, together with certain other senior members of the DDJ investment team, such as its portfolio managers. If any such key persons were to depart DDJ for any reason, DDJ might not be able to find equally desirable replacements and the performance of the portfolios managed by DDJ on behalf of its clients could, as a result, be adversely affected. Further, if the clients managed by DDJ were to incur significant losses in their portfolios, the revenues of DDJ may decline substantially, impairing DDJ’s ability to retain its employees, provide the same level of service to its clients, and continue its ongoing investment advisory operations.

**The foregoing discussion of certain risk factors does not purport to be a complete explanation of the risks involved with investing assets with DDJ. A prospective client of DDJ should evaluate each of these risks, as well as any other risks related to the specific investment strategy to be pursued by DDJ on its behalf, and is encouraged to consult its own financial advisors and legal and tax professionals on an initial and continuous basis in connection with selecting and engaging DDJ as an investment adviser with respect to such prospective client’s assets.**

## **Item 9      Disciplinary Information**

DDJ does not believe that there are any legal or disciplinary events that are material to a client’s or prospective client’s evaluation of either DDJ’s investment advisory business or the integrity of DDJ’s management.

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

Except as set forth as follows, DDJ does not have any material financial industry affiliations or relationships with any related person or other advisory affiliate.

### Material Relationships

The vast majority of DDJ assets under management are managed pursuant to separate account relationships with institutional clients (including clients for which DDJ serves as investment sub-adviser to a pooled investment vehicle). As of March 20, 2020, DDJ provides investment advice and

investment management services to the following private investment funds, which are each exempt from registration under the Securities Act of 1933, as amended, as well as under the 1940 Act:

- DDJ Strategic Income Plus Fund, L.P. ("SIP Fund");
- DDJ/TAF Strategic Income Fund, L.P. ("TAF Fund"); and
- DDJ Capital Management Group Trust – High Yield Investment Fund and DDJ Custom High Yield Fund 2017 (collectively, "Group Trust").

Each of DDJ/GP Strategic Income Plus, LLC and DDJ/GP TAF Strategic Income, LLC is an affiliate of and controlled by DDJ, and serves as the general partner of the SIP Fund and the TAF Fund, respectively. There is no general partner or other DDJ-related affiliate for either of the two investment funds organized within the Group Trust. Each of the TAF Fund and the DDJ Custom High Yield Fund 2017 (itself organized within the Group Trust) are managed by DDJ on behalf of a single investor (or a single group of affiliated investors) and accordingly are classified as separately managed accounts for purposes of Part 1 of this Form ADV. The remaining pooled investment vehicles set forth above are managed by DDJ on behalf of multiple third party investors (including, with respect to the SIP Fund, certain limited partners affiliated with DDJ).

DDJ serves as the investment adviser or investment manager with full discretionary authority with respect to investment and trading decisions on behalf of the aforementioned private investment funds. David J. Breazzano serves as the sole manager of DDJ, which also controls each of the general partners set forth above.

DDJ also serves as the investment adviser to the DDJ Opportunistic High Yield Fund, a U.S. mutual fund registered under the 1940 Act. Such fund is a separate series within the ALPS Series Trust, a Delaware statutory trust. ALPS Distributors, Inc., a broker-dealer unaffiliated with DDJ, distributes the DDJ Opportunistic High Yield Fund and sponsors those DDJ employees whose job responsibilities require their registrations with FINRA as a broker-dealer representative. Finally, DDJ also serves as investment sub-adviser to certain other pooled investment vehicles.

#### Allocation of DDJ Employee Time and Resources

As indicated above, DDJ manages portfolios for a number of clients, many of which pursue investment strategies that are similar or substantially similar to one another. In addition, DDJ may in the future establish new separately managed account client relationships or otherwise sponsor and become affiliated with other pooled investment vehicles that pursue investment programs that are similar or substantially similar to the investment programs of DDJ's current clients. As a result of the foregoing, DDJ personnel may encounter conflicts of interest in allocating their time and resources between clients, as well as in executing transactions between clients, including ones in which DDJ or its personnel may have a financial interest. Accordingly, DDJ will devote so much of its time, and will allocate to its clients the time and resources of its investment, legal, operations and client service teams, as in its judgment the ongoing management of each client's account reasonably requires.

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

### Summary of DDJ's Code of Ethics

DDJ's reputation for integrity and ethics is one of its most important assets. In order to safeguard this reputation, it is essential for DDJ and each of its employees to not only comply with relevant federal and state securities laws and regulations but also to maintain the highest standards of personal and professional conduct at all times. DDJ's Code of Ethics, adopted pursuant to Rule 204A-1 under the Advisers Act as well as Rule 17j-1 under the 1940 Act, is designed to ensure that its conduct and the conduct of its employees is at all times consistent with these values, with DDJ's fiduciary obligations to its clients, and with industry and regulatory standards for investment advisers.

The basic principles underlying DDJ's Code of Ethics are as follows:

- The interests of DDJ's clients must always come before the personal interests of any of its employees.
- Each DDJ employee must take great care to avoid any potential conflict of interest or the appearance of any impropriety in his or her personal actions.
- No DDJ employee should take inappropriate advantage of information that he or she learns through his or her position with or on behalf of a client, whether or not such actions would result in a loss to the client.
- No DDJ employee should advise or encourage others to take actions that such employee would be prohibited by the Code of Ethics from taking himself or herself or for his or her own account.
- Each DDJ employee is required to comply with applicable federal securities laws.
- Each DDJ employee shall maintain the confidentiality of any information gained by reason of his or her employment, and shall not use such information in a manner detrimental to DDJ or its clients.

In order to implement these basic principles, the Code of Ethics contains detailed rules, including both prohibitions as well as preclearance procedures with respect to certain personal securities transactions that are applicable to all employees of DDJ.

Generally, such rules prohibit DDJ employees from front-running DDJ client transactions, or otherwise using knowledge about pending or currently considered securities transactions for clients to profit personally, either directly or indirectly, as a result. More specifically, the Code of Ethics prohibits personal trading in fixed income securities of high yield issuers, as employee ownership of such securities may present an actual or potential conflict of interest with certain client objectives. The Code of Ethics also requires preclearance prior to execution by all DDJ employees with respect to personal trading in several types of securities, including without limitation investments in common stock, bonds and options as well as any security offered in an initial public offering or in a limited offering, such as a private placement transaction.

To aid DDJ's compliance personnel in effectively monitoring and enforcing the rules set forth in the Code of Ethics, DDJ utilizes an automated employee trade preclearance and reporting system via a web-based compliance portal that is accessible by each of DDJ's employees. Prior to the execution of any personal transaction in those securities that are covered under the Code of Ethics, each DDJ employee must preclear such trade through the system's web-based portal. This automated preclearance system has been programmed to incorporate the ongoing rules and other restrictions with respect to personal trading in securities by DDJ employees that are set forth in its Code of Ethics. Upon the entry of a preclearance request by an employee, the preclearance system will either approve a requested personal securities transaction if no rule prohibition is triggered, or otherwise forward the pending trade request to the Chief Compliance Officer for further review in the event that the system has identified an issue potentially in conflict with the rules designated within DDJ's Code of Ethics.

DDJ generally requires that each of its employees report to the Chief Compliance Officer all personal brokerage accounts through which covered securities can be purchased or sold. DDJ then instructs the broker for such accounts to establish an electronic data feed that flows directly into the automated compliance system. Such an electronic feed provides a record of each personal securities transaction by such DDJ employee, thereby enabling the Chief Compliance Officer to verify compliance (via the automated system) with DDJ's personal trading procedure as set forth in its Code of Ethics. In limited circumstances to the extent that a broker is unable to establish such an electronic data feed with respect to an employee's personal account, DDJ may nonetheless impose similar personal trading restrictions (as well as reporting requirements) on such employee consistent with the requirements of the DDJ Code of Ethics.

Failure to obtain appropriate preclearance for personal transactions in securities covered under the Code of Ethics constitutes a serious breach of DDJ's rules. The ensuing disciplinary action taken by DDJ, which may include warnings, suspension of personal securities trading privileges, fines, disgorgement of profits, and suspension and termination of employment, as well as the referral to civil or criminal authorities where appropriate, will depend on the applicable facts and surrounding circumstances following a review by the Chief Compliance Officer.

Notwithstanding the foregoing, to the extent that a DDJ employee has established a personal brokerage account over which such employee has no direct or indirect influence or control (*e.g.*, a personal account managed on a fully discretionary basis by a financial adviser unaffiliated with the employee), DDJ may, in its sole discretion, exempt any personal transactions and securities holdings with respect to such non-discretionary accounts from the preclearance and reporting requirements, respectively, under its Code of Ethics. The Chief Compliance Officer must pre-approve any such exemptions in order to confirm such arrangement's compliance with both the regulations under the Advisers Act as well as applicable SEC guidance. The Chief Compliance Officer also periodically reviews such personal trading arrangements in an effort to confirm that they are not otherwise designed to evade the applicable personal trading requirements under the DDJ Code of Ethics.

The Code of Ethics requires that each of DDJ's employees complete, via the web-based portal, a quarterly certification with respect to any covered personal securities transactions, as well as a certification with respect to all covered personal securities holdings upon an individual's initial employment with DDJ and then annually thereafter.

Upon request, DDJ will provide any client or prospective client with a copy of its Code of Ethics.

### Personal Trading by DDJ Employees and Related Persons: Blackout Periods

DDJ clients pursue highly specialized investment strategies and objectives in a limited investment universe that generally do not overlap with the investment goals and objectives separately established by DDJ employees with respect to their personal accounts. Although the Code of Ethics includes an outright restriction on personal trading in fixed income securities issued by high yield companies, from time to time, DDJ employees may invest in their personal accounts in the same securities (such as common stocks) that DDJ also may recommend for its clients. To the extent that a portfolio manager desires to execute a personal trade in a security that may also be appropriate for a DDJ client, a conflict of interest may arise, as such individual may have an incentive to place orders first in his or her personal account prior to making a corresponding investment recommendation for a client. Similarly, employees may have an incentive to benefit from the market effect of trades in client accounts by trading shortly thereafter in their personal accounts.

In all cases, whether or not a specific provision of the Code of Ethics applies, each DDJ employee must conduct his or her personal trading activities in accordance with the general principles embodied by the Code of Ethics outlined above, and in a manner that is designed to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility. Furthermore, in order to address these specific conflicts of interest, DDJ has implemented blackout periods for certain securities during which time personal trading by portfolio managers (prior to the placement of a client trade in the securities of a particular issuer) and all employees (following the placement and subsequent execution of a client order) is prohibited. DDJ believes that the implementation of such blackout periods, which are more restrictive than the personal trading limitations set forth in the Advisers Act (and the rules promulgated by the SEC thereunder), effectively minimizes these potential conflicts of interest; however, such blackout periods do not apply to investment fund clients in which DDJ and/or its affiliates and employees have directly invested. In addition, DDJ has implemented additional personal trading limitations specific to its members of the investment team in an effort to foster compliance with the principles of the Code of Ethics at all times.

DDJ has programmed its automated compliance system to incorporate these blackout periods as well as to prompt investment team members at the time of any trade preclearance of their additional obligations in an effort to prioritize the interests of DDJ's clients above their own personal interests at all times. Pursuant to the Code of Ethics, the Chief Compliance Officer may provide a waiver of these restrictions, taking into account the specific facts and circumstances surrounding a trade, prior to the execution of a personal trade. Furthermore, on a post-trade basis, the Chief Compliance Officer also periodically reviews compliance with such blackout periods as well as other personal trading preclearance requirements.

In addition, on a periodic basis, the Chief Compliance Officer (or an authorized designee) reviews a random sampling of personal trades by DDJ employees in certain securities that are also held by DDJ clients and are otherwise permitted to be purchased under the Code of Ethics (*e.g.*, securities other than fixed income securities issued by a high yield company). This review is designed to identify any suspicious or otherwise irregular pattern of trading behavior by DDJ employees in their personal accounts, such as purchases or sales of securities in personal accounts consistently at more favorable prices than the prices paid or received by DDJ clients, or transactions that otherwise suggest a deliberate evasion of the blackout period rules included in the Code of Ethics. While historically there has not been any material overlap with respect to DDJ's trading on behalf of its clients and personal trading by DDJ employees, DDJ nonetheless believes that its preventative compliance procedures enable the firm to identify any personal trading patterns that may be problematic and accordingly

address any potential conflicts of interest that may arise as a result of DDJ employees investing in the same securities (or related securities) that DDJ also recommends for its clients.

#### Policy and Procedure with respect to the Flow and Use of Material Non-Public Information

DDJ also maintains a Policy and Procedure with respect to the Flow and Use of Material Non-Public Information (the “MNPI Policy”), which is designed to provide for the proper handling of material non-public information about companies as well as prevent the misuse of such information by DDJ and its employees. It is a violation of the MNPI Policy for any employee to knowingly trade or recommend a trade in securities on the basis of material non-public information, whether for his/her own account, on behalf of any client account managed by DDJ, or for any other person, whether or not such actions would violate federal securities laws. In addition, the MNPI Policy provides that it is a violation to tip such information to others, whether or not such actions would violate federal securities laws. Exceptions, which must be approved by a member of the DDJ legal department, are only granted to the extent consistent with applicable law. DDJ also programs both its trade order management system and its automated Code of Ethics compliance system to flag any client orders or personal trading preclearance requests, respectively, that include securities issued by companies that DDJ has placed on the firm’s “Restricted List”. The Chief Compliance Officer, together with other members of the firm’s legal department, is responsible for monitoring and reviewing compliance with the MNPI Policy.

In an effort to ensure that all employees are cognizant of their responsibilities under the Code of Ethics and the MNPI Policy, DDJ requires that each newly-hired employee meet with the Chief Compliance Officer to review the material requirements of the Code of Ethics and MNPI Policy shortly following their initial employment date with the firm. Furthermore, from time to time, each employee must attend or complete supplemental training overseen by the Chief Compliance Officer to review such requirements. Finally, upon employment and on an annual basis thereafter, DDJ’s personnel are required to certify, via the web-based portal, as to their ongoing compliance with the Code of Ethics and the MNPI Policy.

#### Participation or Interest in Client Transactions

In certain instances, DDJ may recommend that its clients invest in securities in which DDJ or an affiliate has a material financial interest. For example, DDJ has an indirect financial interest in certain securities owned by investment fund clients organized as limited partnerships because affiliates of DDJ serve as the respective general partner of each entity. Similarly, DDJ and/or certain of its employees have invested directly in the DDJ Opportunistic High Yield Fund, a U.S. mutual fund, as well as a certain private fund (and/or its general partner), in each case that are managed by DDJ. A conflict of interest may arise because DDJ has an incentive to direct additional client assets to such portfolio company investments in which itself and/or its affiliates have a material financial interest. Furthermore, DDJ may be incentivized to make different investment and trade allocation decisions than it would if such parties did not have such financial ownership interests.

To address this conflict, DDJ has adopted written initial order and allocation guidelines, as further outlined in Item 6 of this Brochure, that are intended to provide for a fair and equitable allocation of purchases and sales of investments amongst DDJ client accounts. Furthermore, DDJ’s Code of Ethics requires that DDJ employees (including, without limitation, its portfolio managers) place the interests of clients first, and on an annual basis, each DDJ employee must certify that he or she has read and understands the Code and has complied with its provisions. Although DDJ does not believe

that any material conflict of interest is likely to arise as a result of DDJ recommending that its clients invest in securities in which DDJ or an affiliate has a material financial interest, to the extent that DDJ believed that its interests were not aligned with the interests of its clients (and that such investment otherwise complied with applicable law), DDJ would disclose the appropriate facts and circumstances related to such investment allocation to the affected client(s) before executing any transaction.

Although DDJ and its employees have invested in certain of its managed pooled investment vehicles, the pooled investment vehicles themselves (each of which include third party investors unaffiliated with DDJ) are not subject to the blackout and other trading restrictions applicable to DDJ employees that are set forth in the DDJ Code of Ethics. However, because the interests of DDJ and its investment fund clients are generally aligned in these instances, DDJ does not believe that such an investment by itself and by its affiliates in certain DDJ-managed investment products generally presents any actual conflict of interest.

Finally, as described in Item 6 of this Brochure, DDJ may execute cross transactions between certain of its client accounts. To the extent that any cross transaction would be deemed a principal transaction (*e.g.*, as a result of the interests of DDJ and/or any of its affiliates in its commingled funds participating in such transaction), DDJ would only execute such transaction following a conclusion by its Chief Compliance Officer that such transaction was consistent with applicable law (including, without limitation, Section 206(3) of the Advisers Act) as well as with DDJ's internal compliance policies and procedures applicable to such principal transactions.

#### Gifts and Entertainment; Outside Business Activities

From time to time, brokers and other service providers to DDJ and its clients may provide DDJ employees with non-monetary gifts as well as certain customary business entertainment, which DDJ believes improves the quality of such working relationships and accordingly benefits the firm's clients. Nonetheless, the Code of Ethics contains certain restrictions regarding the receipt of such gifts and entertainment that are reasonably designed to minimize any associated actual or potential conflicts of interest. The overriding principle governing the behavior of DDJ employees in this area is that they may not accept gifts or entertainment as a "*quid pro quo*" or condition of doing business with the provider. Furthermore, gifts (including any gift over \$100 in value from a single service provider over any consecutive twelve month period) and entertainment that may create an appearance of impropriety or a conflict of interest must be reported to, and require the approval (via the web-based compliance portal) of, the Chief Compliance Officer. Notwithstanding the foregoing, in an effort to create as comprehensive a log as possible, the Chief Compliance Officer encourages DDJ employees to report all gifts received, irrespective of value or any perceived conflict of interest, as well as requires the firm's employees to report all entertainment (other than normal and customary business meals) given or sponsored by anyone with whom DDJ does business. In connection with the firm's annual compliance review, the Chief Compliance Officer reviews such gift and entertainment log for any abnormalities.

In addition, DDJ employees are also discouraged (or, in certain cases, outright restricted) from participating in outside business activities, including, without limitation, any activity that conflicts with DDJ's interests, encroaches on normal working time or otherwise impairs performance. In addition, in light of potentially conflicting fiduciary duties as well as conflicting time demands, any DDJ employee seeking to serve on the board of directors of a company must obtain the prior approval



of the Chief Compliance Officer, which approval is not generally granted unless it is determined that such service would be in, or not otherwise conflict with, the best interests of DDJ's clients.

DDJ requires that its employees periodically certify their compliance with these procedures through the web-based compliance portal.

#### Political Contributions

DDJ has adopted a policy in compliance with Rule 206-4(5) under the Advisers Act that requires itself and its covered employees to preclear (via the web-based compliance portal) and obtain prior approval before it or they (or their spouse or their dependent children), respectively, make (i) any direct or indirect contributions to any incumbent, candidate or successful candidate for elective office of a state or local government entity, or (ii) any solicitation of contributions for any state or local political party. The purpose of this policy is to preemptively address any potentially abusive "pay-to-play" practices involving the solicitation by DDJ or its covered employees of business from various state and local governmental entities, such as public pension plans, that may also serve as clients or prospective clients of DDJ. Covered employees must also certify their political contribution activities to DDJ on an annual basis via the web-based compliance portal. The Chief Compliance Officer is responsible for overseeing compliance with this policy.

#### Whistleblower

DDJ believes that its employees form an integral part of the firm's internal control system. Accordingly, DDJ has adopted a whistleblower policy, embedded within its Code of Ethics as well as its employee handbook, which is designed to comply in all respects with the applicable whistleblowing requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

## **Item 12 Brokerage Practices**

#### Best Execution

The advisory contracts entered into by DDJ generally afford the firm broad discretion to select brokers with whom to execute trades on behalf of its clients. DDJ maintains an "Approved Brokers List" and, absent special circumstances, only executes trades with brokers that are included on such list. Any proposed, one-off trade with a counterparty not on the Approved Brokers List requires the approval of the Chief Compliance Officer (or a designee). To the extent that the DDJ trading team desires to add a new broker to the Approved Brokers List, DDJ will first perform a diligent onboarding process (including a review, to the extent attainable, of a broker's FOCUS report together with its regulatory and disciplinary history), whereby the new broker's financial information is submitted to the Chief Financial Officer (and/or his designee) for review and approval. Following the favorable completion of this process, DDJ will update its Approved Brokers List by adding such broker, and then permit trading with such counterparty accordingly.

In selecting brokers for client transactions, DDJ attempts to seek the best overall combination of price and execution of purchase or sale orders under each possible circumstance (unless otherwise provided in the governing documents with respect to a particular client account). The best net price, after giving effect to brokerage commissions, spreads and other costs, is typically the most important factor in this decision, but a number of other judgmental facts will be considered by the DDJ trader as they are deemed relevant. For example, consideration may be given to the reputation, perceived

soundness, and performance of the various firms, their demonstrated execution capability, both generally and in regard to particular securities transactions, and their proposed commission charges (to the extent the commission is not otherwise built into the net price), as well as other factors, including the nature of the security or instrument being traded, the size and type of the transaction, the nature and character of the markets for the security or instrument to be purchased or sold, the desired timing of the trade, the activity existing and expected in the market for the particular security or instrument, confidentiality, and the brokerage firm's clearance and settlement capabilities.

DDJ executes all fixed income trades on behalf of its clients on a net basis. Accordingly, broker counterparties do not charge DDJ's clients a separate commission on a fixed income trade; rather, the commission is embedded within the purchase or sale price (as reflected in the applicable bid/ask spread). With respect to publicly-traded equity trades, clients of DDJ are typically charged a commission of \$0.025 per share, though a client account may pay in excess of such commission in special situations. DDJ's determination of what constitutes a reasonable commission rate (or, in the case of a fixed income trade, a reasonable bid/ask spread to the extent that such information is available) is based on the knowledge of its traders regarding competitive rates paid and charged for similar transactions in the market.

#### Research and Other Soft Dollar Benefits

When it appears that a number of brokerage firms can satisfy the required standards with respect to a particular transaction, DDJ may also consider research services that such firms have provided in the past or may provide in the future. Such research services may include the provision of supplemental investment research, including information on particular securities or individual companies, legal interpretations and legal developments affecting portfolio securities, investments or issuers, general, economic and political information, analytical and statistical data, relevant market information and market quotations in connection with the analysis of securities. However, in the context of the high yield fixed income market, DDJ typically does not consider these potential research services when evaluating which brokerage firm can provide its clients with best execution for any particular trade.

When executing client transactions in publicly-traded equity securities, DDJ may utilize brokerage firms that, in lieu of providing their own proprietary research services, instead credit DDJ with "soft dollars" generated by DDJ client brokerage commissions. DDJ may then use these soft dollars to pay for eligible research services provided by a third party vendor. DDJ believes that access to such independent research facilitates its investment decision-making processes. In return for such soft dollar benefits, DDJ may cause its clients to pay higher commissions than those that may be charged by other broker-dealers that have not entered into such a soft dollar arrangement with DDJ. This "paying-up" of commissions creates a potential conflict of interest, as DDJ may have an incentive to select or recommend a broker-dealer based on DDJ's interest in receiving soft dollars and accompanying research services, rather than based on DDJ's clients' best interest in receiving the most favorable execution on their transactions. Furthermore, DDJ does not use soft dollars to benefit only those accounts that generated such soft dollars, and DDJ does not allocate any ensuing soft dollar benefits (*e.g.*, research) to client accounts proportionately to the soft dollar credits that such accounts may have generated. Accordingly, DDJ may utilize soft dollars generated by client accounts to purchase eligible research services, irrespective of whether such research material proves useful to DDJ in connection with the management of any client or any particular client accounts that may have originally generated such soft dollars. Nonetheless, DDJ may derive substantial direct or indirect

benefit from these research services, particularly to the extent that DDJ uses soft dollars to pay for expenses that DDJ otherwise would be required to pay for itself.

Because DDJ generates soft dollars only by trading publicly-traded equity securities (including on rare occasion ETFs), which typically comprise a very small percentage of both DDJ's assets under management as well as its total trading volume, DDJ does not believe that this compliance area represents a significant potential conflict of interest as it pertains to the best execution of its clients' trades; in the last fiscal year, no such soft dollars were generated by DDJ as a result of the trading of any public equities in its client accounts. Furthermore, certain clients, due to regulatory reasons or otherwise, have restricted DDJ from utilizing soft dollar arrangements altogether with respect to any trading activity conducted by DDJ on their behalf.

Nonetheless, to address any potential conflicts of interest arising in connection with the use of any soft dollars by DDJ to pay for research services, DDJ, under the direction of its Chief Compliance Officer, complies with the safe harbor regarding the use of client funds to purchase certain research services as established by Section 28(e) of the Securities Exchange Act of 1934, and as such safe harbor was clarified by the SEC interpretive release effective as of July 24, 2006. Over the last fiscal year, such approved research services utilized by DDJ have included relevant market information as well as market quotations utilized in connection with the analysis of securities; such soft dollar credits were generated as a result of client trading in the previous fiscal year (2018) and were entirely *de minimis* relative to the total research services purchased by DDJ (with "hard" dollars) during the current fiscal year.

#### Brokerage for Client Referrals

In selecting or recommending broker-dealers for client transactions, DDJ does not consider the possibility of client referrals from any broker-dealer. Historically, broker-dealers have not served as a source of client referrals.

#### Directed Brokerage

DDJ does not routinely recommend, request or require that any client direct DDJ to execute transactions through a specified broker-dealer. While DDJ will permit its clients to direct brokerage, historically clients with the authority to direct brokerage to a particular firm have not required DDJ to do so, and have instead provided DDJ with full discretion to select broker-dealers with whom to trade on their behalf; however, in certain instances, clients have reserved the right to request that DDJ direct a portion of total brokerage to certain types of brokers (*e.g.*, minority business owned enterprises) or otherwise restrict trading by DDJ (on behalf of such client) with a specific broker. DDJ addresses any directed brokerage arrangements on a case-by-case basis. Specifying or restricting brokers may be inconsistent with obtaining overall best execution for a client transaction.

#### Initial Order and Allocation Guidelines

For a description of DDJ's written initial order and allocation guidelines, which govern how DDJ allocates investment opportunities amongst its client accounts, please reference Item 6 under the section entitled "Allocation of Trades".

### Aggregation of Orders

Occasions commonly arise when DDJ determines to purchase or dispose of an investment in a particular security for more than one of its clients. In most instances, aggregation of trade orders results in lower commissions, a more favorable net price, and/or more efficient execution than separately placing trade orders for each of DDJ's clients. When DDJ deems the purchase or sale of a security to be in the best interests of a number of clients, it typically aggregates such securities to be purchased or sold among those client accounts in an effort to obtain best execution and lower brokerage commissions in such manner as DDJ deems equitable and fair to its clients. In such circumstances, each DDJ client participating in an aggregated order will participate at the same price as all other participants, and all transaction costs associated with the order will be allocated *pro rata* to all participating clients.

### Trade Errors

It is DDJ's practice that its trading and accounting personnel implement all investment decisions carefully. Nevertheless, trading, settlement or other operations-related errors may occur as a result of mistakes made on the part of DDJ's personnel including, but not limited to, portfolio managers, traders and operations staff. An example of such an error is the inadvertent sale of a security in a client account when it instead should have been purchased. If a trading, settlement or operations-related error occurs, it is DDJ's policy that such error be corrected as soon as possible and, subject to the client's applicable standard of care, in such a manner that the affected client is not disadvantaged and bears no loss. Any error that results in a gain following such correction will be credited to the affected client.

In the event of the discovery of such an error involving a client account managed by DDJ, applicable trading and/or operations personnel will promptly investigate the matter and, if appropriate, convene a meeting of senior DDJ personnel to (x) determine the cause of the error; (y) assess whether a DDJ client incurred a loss (and if so, to determine any remedial action to be taken, including any notification to the affected client); and (z) recommend, if appropriate, any changes to existing procedures in an effort to prevent a similar error from recurring in the future. In all instances, the Chief Compliance Officer will be notified at or promptly after the time that the error is discovered, and to the extent that any remedial action is proposed, the Chief Compliance Officer will approve of such resolution. While DDJ is responsible for its own trade errors, it is generally not responsible for the errors of other persons with whom DDJ conducts business on behalf of its clients, including third party brokers and custodians.

## **Item 13      Review of Accounts**

### Account Reviews

DDJ assigns each client one or more portfolio managers with the requisite skills to manage the particular account(s). With the exception of certain client portfolios that are pursuing legacy investment strategies and are accordingly in their wind-down stage with very limited remaining assets under management, as a general rule, client accounts are reviewed by these DDJ investment professionals on a daily basis. Such review generally involves an examination of the current market value of portfolio investments, developments in portfolio companies, recent transactions, dynamics affecting the overall high yield market, and other factors affecting investment decisions with respect to the portfolio, including each client's investment objective, guidelines and restrictions. In addition,

the portfolio managers together with the other investment professionals at the firm meet on both an *ad hoc* and a regular basis (*e.g.*, in the form of the Investment Review Committee or the entire research team) to discuss specific positions held by, and potential investments for, client accounts. Performance of client accounts is likewise monitored by such investment professionals. Finally, DDJ also assigns each client a dedicated relationship manager, who is responsible for ensuring that such account is properly serviced, monitored and supervised, including the preparation and timely delivery of applicable client reports.

In addition, DDJ utilizes an automated compliance system, which is embedded within the firm's trade order management system and accordingly monitors each discretionary client account for applicable investment guideline compliance on a real-time basis. The purpose of this automated compliance system is to screen individual transactions to prevent inadvertent trade allocations to client accounts that would otherwise breach a specific investment restriction or guideline. Following the entry of any proposed order that triggers a pre-trade compliance alert within the trade order management system, a member of DDJ's compliance department must resolve such alert before the order is cleared within the system and a DDJ trader is accordingly authorized to execute such trade with a counterparty. In addition to the foregoing, on a daily basis each night, the compliance system conducts an automated post-trade compliance review to similarly confirm end-of-day compliance with such client-imposed investment restrictions and guidelines. Each ensuing trading day, DDJ compliance personnel review any issues identified as part of this daily post-trade process performed the night before (*e.g.*, a passive breach of a client guideline as a result of market movements), and, as appropriate, elevate any flagged items to the portfolio manager(s) responsible for managing the client account as well as to the firm's Chief Compliance Officer. Depending on the nature of the issue, such individuals may then collectively recommend remedial portfolio transactions in a manner consistent with the client's governing documents.

#### Client Account Reports

With respect to its separately managed account clients (including those accounts for which DDJ serves as investment sub-adviser on behalf of a pooled investment vehicle), DDJ generally provides reports on a monthly or quarterly basis, depending on the client's needs, the particular investment strategy and the type of assets under management. Such written reports generally include the current value of the account, the performance and attribution of the account for the time period covered, certain portfolio characteristics, and a list of all or selective position holdings for the account. Meetings with such institutional clients are held as agreed upon with clients and generally occur at least annually, while DDJ personnel who are knowledgeable with respect to a client's account are made reasonably available to the client for consultation. Further, DDJ will attempt to accommodate customized daily, weekly, monthly, quarterly and *ad hoc* reporting requirements requested by its clients.

For pooled investment vehicles for which DDJ serves as the sole investment adviser, DDJ (or the designated third party fund administrator) will provide the written reports and/or information required to be provided to such client's underlying investors as set forth in the fund's governing documents; typically, such reports are provided on a monthly basis, with audited financial statements and tax reports (*e.g.*, annual Schedule K-1) also provided to such investors following the end of the applicable fiscal year. Finally, given the client-directed trading focus of its single non-discretionary account, DDJ does not provide such client with any account reporting.

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

In limited circumstances relating to certain legacy investment accounts managed on behalf of a single client that was originally introduced to DDJ by a third party solicitor, DDJ remains obligated to pay to such solicitor a portion of the asset-based fees received by DDJ with respect to such accounts. However, given that such client accounts are nearly fully wound-down, such solicitation fees are not material to DDJ's ongoing business (and similarly are not expected to be meaningful going forward). In such circumstances, as well as with respect to any potential future fee sharing arrangements with third party solicitors, DDJ will fully comply with the applicable provisions of Rule 206(4)-3 under the Advisers Act, including (i) requiring solicitors to make appropriate written disclosures to prospective clients required by such Rule, and (ii) receiving from its clients appropriate written acknowledgments required under such Rule prior to or at the time of entering into any advisory contract. With respect to the aforementioned solicitation arrangement, DDJ does not believe that any actual conflicts of interest exist at this time.

In addition, pursuant to a Selected Dealer Agreement entered into in August 2018, DDJ has engaged a registered broker-dealer unaffiliated with DDJ to introduce prospective investors to the DDJ Opportunistic High Yield Fund in exchange for compensation for rendering such services. Such registered broker-dealer has retained a third party firm, as its registered representative, to perform the specific consulting, marketing and sales services for the benefit of DDJ as contemplated by such Selected Dealer Agreement. Finally, pursuant to a Mutual Fund Support Services Agreement entered into in August 2019, DDJ has engaged another registered investment adviser to provide certain mutual fund support services with respect to the DDJ Opportunistic High Yield Fund (including, without limitation, recommending an investment in such fund to such adviser's investors and prospective institutional investors) in exchange for compensation. In each case, such compensation primarily takes the form of a percentage of any management fees received by DDJ with respect to an investment in the DDJ Opportunistic High Yield Fund made by an investor identified by such third party; such fees are paid by DDJ (*e.g.*, out of past profits) and are not borne by such fund. Each such arrangement is conducted by DDJ in a manner that is consistent with Rule 206(4)-3 under the Advisers Act as well as relevant SEC guidance.

In the ordinary course of business, DDJ or one of its employees may receive corporate gifts or meals and entertainment, such as tickets to cultural and sporting events or invitations to golf outings, from service providers that conduct business with DDJ and/or its affiliates. The receipt of such gifts and other benefits is subject to certain limitations under DDJ's Code of Ethics, as set forth in Item 11 under the section entitled "Gifts and Entertainment; Outside Business Activities". With the exception of the foregoing, which DDJ believes to be customary and not excessive, no third party presently provides any economic benefit to DDJ for providing investment advisory services to DDJ's clients.

## **Item 15      Custody**

In connection with the safekeeping of securities and other assets held in client accounts managed or advised by DDJ, DDJ has adopted certain policies and procedures designed to ensure that DDJ complies with Rule 206(4)-2 (often referred to as the "Custody Rule") under the Advisers Act.

With respect to DDJ's separately managed account clients and its pooled investment vehicles for which DDJ serves as investment sub-adviser, such clients select a "qualified custodian" (as defined in the Custody Rule) unaffiliated with DDJ to custody the funds and assets that the client has placed under DDJ's management. With respect to the DDJ Opportunistic High Yield Fund, a U.S. mutual fund

for which DDJ serves as investment adviser, as well as the investment funds organized within the DDJ Capital Management Group Trust, such funds' assets are maintained at an independent qualified custodian selected by (but unaffiliated with) DDJ. With respect to such circumstances, DDJ does not hold, directly or indirectly, such client funds or assets; DDJ does not have any authority to obtain possession of such client funds or assets; and no arrangement exists under which DDJ would be authorized or permitted to withdraw client funds or securities maintained with a custodian upon DDJ's instruction to such custodian. Accordingly, consistent with the requirements of the Custody Rule, DDJ does not maintain custody of such client funds or securities.

With respect to DDJ's pooled investment vehicle clients organized as limited partnerships for which DDJ serves as investment adviser, although the assets of each managed vehicle are maintained by DDJ at an independent, qualified custodian, DDJ is nonetheless generally deemed to have custody of the assets of certain of those pooled investment vehicles under the Custody Rule because an affiliate of DDJ serves as the general partner of such respective vehicle (and DDJ itself controls such general partner). Accordingly, as it pertains to DDJ's management of such clients' assets, DDJ has adopted internal procedures designed to comply with the requirements of the Custody Rule as well as to appropriately safeguard client assets (including, without limitation, that such pooled investment vehicle must be audited at least annually by an independent public accountant with such audited financial statements distributed to each beneficial owner (*e.g.*, limited partner) of the pooled investment vehicle within 120 days of the end of such vehicle's fiscal year). The Chief Compliance Officer is responsible for monitoring and reviewing compliance with these internal procedures related to compliance with the Custody Rule. DDJ urges each investor in any of its pooled investment vehicles to carefully review the applicable annual audited financial statements.

## **Item 16 Investment Discretion**

As of December 31, 2019, with the exception of a single client account for which DDJ does not exercise investment discretion, DDJ manages its funds and accounts on a discretionary basis, consistent with each client's investment objectives and restrictions, with broad authority to determine the securities to be bought and/or sold, the amount of securities to be bought and/or sold, the price paid or received in connection with such transaction, and the broker-dealers to be used along with (in the case of equity securities) the related commission rates. However, with respect to certain accounts pursuing legacy investment strategies that are beyond their investment period or otherwise in their wind-down or termination stage, while DDJ retains discretionary authority to dispose of any remaining investments held within such portfolios, DDJ no longer has the authority to initiate new purchases.

DDJ typically negotiates the breadth of its investment authority directly with each client, which powers are then memorialized in an investment management agreement or a similar governing document executed with the client. In general, a client will delegate broad authority to DDJ to manage a discretionary account, subject to limitations set forth in the contractual investment restrictions or guidelines that are negotiated between DDJ and such client at the inception of the relationship. Such client-specific investment restrictions or guidelines may limit DDJ's authority to invest in particular types of securities, may limit DDJ's ability to invest in debt securities above or below a certain rating, or may set a minimum or maximum percentage (relative to the account's market value) with respect to investments in a single issuer, industry or a certain type of security (*e.g.*, equities). Clients may also impose on DDJ a maximum percentage that may be invested in "illiquid" securities. Furthermore, clients may also impose socially responsible restrictions or guidelines, including prohibitions on investing in specific issuers or in those engaged in certain lines of business. In addition, with respect to the DDJ Opportunistic High Yield Fund as well as instances where DDJ acts as investment sub-

adviser on behalf of an asset manager that manages a mutual fund or other similar client account structured as a pooled investment vehicle, DDJ's authority to select the type and amount of securities to be bought or sold on behalf of such client may be further limited by that fund's prospectus, statement of additional information, offering memorandum or other applicable fund documentation.

In order to most effectively pursue the desired investment objective for its discretionary accounts, DDJ requests from each client, and such clients oftentimes grant to DDJ, a power of attorney or other written authority for DDJ to execute investment contracts, agreements and other undertakings in the name of such client as DDJ may deem necessary or advisable for, or as may be incidental to, its management of such client account. This power of attorney is typically included directly within the investment management agreement (or an equivalent governing agreement) entered into by DDJ with the client.

## **Item 17     Voting Client Securities**

Given the credit-oriented focus of DDJ's investment strategies, DDJ primarily manages investments in fixed income, rather than equity, securities. As a result, equity investments, in particular in public companies that regularly disseminate proxy voting materials to their shareholders, typically constitute a very small percentage of the total assets managed by DDJ (though such percentage varies by client account depending on the particular investment strategy pursued). Proxy voting therefore is typically not a material element of DDJ's significant investment strategies (or any of its customized client solutions).

Nonetheless, in accordance with Rule 206(4)-6 under the Advisers Act, DDJ has adopted and implemented certain written proxy voting policies and procedures, which DDJ believes are reasonably designed to ensure that proxies are voted in the best interests of its clients. To the extent that a DDJ client has provided DDJ with the authority to vote proxies, DDJ votes such proxies on behalf of its clients based on its judgment as to what voting decision is most likely to maximize total return to the client as an investor in the issuer whose securities are being voted. DDJ generally reviews and makes a voting decision on each matter presented in such proxy on an individual, case-by-case basis.

It is possible that DDJ may encounter a conflict of interest with respect to a matter to be voted upon in a proxy, though given the limited amount of investing by DDJ's clients in public equity securities, such circumstances would be very rare. However, if DDJ identifies a potential conflict of interest, DDJ would convene a meeting of DDJ's internal proxy committee, which has been created to address situations when such conflicts arise. The internal proxy committee will then determine whether voting on such proxy matter presents an actual conflict of interest. In the event that the internal committee concludes that there is a conflict of interest, DDJ generally would request a waiver of such conflict or other specific voting instructions from the client, an authorized representative of the client, or an appropriate third party. However, to date, DDJ has not identified any potential conflict of interest that has necessitated a meeting of the internal proxy committee to resolve.

Upon the inception of a discretionary client account, DDJ will typically negotiate for the authority, as set forth in the investment management agreement, to vote all proxy matters. DDJ believes that obtaining proxy voting authority better enables DDJ to implement its investment strategies and maximize value to its client accounts. However, in the event that a client does not grant DDJ such authority, then such client will retain proxy voting authority, or may retain the authority to direct a vote with respect to a particular solicitation. In such circumstances, clients will generally receive



their proxies or other solicitations directly from their custodians, and DDJ will attempt to make its personnel available to answer any questions with respect to such matters.

In the case of fixed income securities, except to the extent otherwise set forth in an underlying management agreement with a client, DDJ also exercises discretion that it deems appropriate and in the best interests of its clients with respect to other corporate action events. These actions may include, for example, responding to debt exchanges, tender offers or consents, bankruptcy claims and class action claims, as well as voting with respect to an issuer's plan of reorganization.

If any client would like additional information regarding how DDJ has voted on specific proxies, or a copy of its proxy voting policies and procedures, please send a written request to the attention of Joshua McCarthy, General Counsel and Chief Compliance Officer, at DDJ Capital Management, LLC, 130 Turner Street, Building #3, Suite 600, Waltham, MA 02453, or via email to Mr. McCarthy at legal2@ddjcap.com.

## **Item 18      Financial Information**

Registered investment advisers are required in this Item to provide their clients with certain financial information or disclosures about their financial condition.

DDJ does not require any of its clients to prepay its fees six months or more in advance.

As of December 31, 2019, with the exception of a single account for which DDJ does not exercise investment discretion, DDJ has discretionary management authority with respect to each of its clients, subject to specific restrictions and guidelines established by each client (though certain funds and accounts are in their wind-down or termination stage and accordingly DDJ is no longer making any new investments on their behalf). Furthermore, with respect to each of its pooled private investment vehicles organized as limited partnerships, although DDJ maintains such assets with an independent qualified custodian, DDJ nonetheless is deemed to have custody of client funds and securities (as described under Item 15 above). At the present time, DDJ does not believe that there is any financial condition affecting DDJ that is reasonably likely to impair its ability to meet its ongoing contractual commitments to its clients.

Since its inception in 1996, DDJ has not been the subject of a bankruptcy proceeding.