

# **Nexus Capital Management LP**

## **Form ADV Part 2 Brochure**

This Brochure (the “Brochure”) provides information about the qualifications and business practices of Nexus Capital Management LP (“Nexus,” the “Firm,” the “Adviser,” “we,” “us” or “our”). If you have any questions about the contents of this Brochure, please contact us at (424) 330-8820. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Additional information about Nexus is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Nexus is 168618.

*Nexus is registered as an investment adviser with the SEC pursuant to the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Recipients of this Brochure should be aware that registration with the SEC does not in any way constitute an endorsement by the SEC of an investment adviser’s skill or expertise. Further, registration does not imply or guarantee that a registered adviser has achieved a certain level of skill, competency, sophistication, expertise or training in providing advisory services to its clients.*

## **Nexus Capital Management LP**

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Phone: (424) 330-8820

## **Brochure prepared on March 2020**

The delivery of this Brochure at any time does not imply that the information contained herein is correct as of any time subsequent to the date shown above. This Brochure will supersede all other documents containing information about Nexus.

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## Item 2 Material Changes

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This Brochure contains updated information about Nexus' business since the last annual updating amendment dated March 27, 2019. This section of the Brochure will address only those "material changes" that have been incorporated since the last annual delivery of this document on the SEC's public disclosure website (IAPD). Accordingly, since the last annual update of this Brochure, dated March 27, 2019, the following material changes to Nexus' business and enhancements to disclosures have occurred:

- Item 4. Advisory Business. The Adviser's assets under management were updated to reflect the regulatory assets under management as of December 31, 2019. Additionally, other revisions and enhanced disclosures were made with respect to Nexus' affiliates that serve as general partners to the Sponsored Private Funds (as defined below).
- Item 10. Other Financial Industry Activities and Affiliations. Nexus is affiliated with each of the general partners to the Sponsored Private Funds: Nexus Special Situations GP II, L.P., Gateway GP PCO, L.P., Encore CPG Holdings GP, LLC, Nexus GP, Database Coinvest GP, LLC, Vine Mercury GP, LLC, and Wonder Coinvest GP, LLC. Revisions and enhanced disclosures were made with respect to Affiliated General Partners.
- Item 11. Code of Ethics. Revisions and enhanced disclosures were made with respect to Gift and Entertainment Policy and Personal Trading Policy.

In the future, this section of the Brochure will identify, address and discuss only the material changes since the last delivery or posting of this Brochure on the SEC's public disclosure website (IAPD) to assist and make you aware of certain information that has changed since the prior year's Brochure.

Nexus will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. All recipients of this Brochure are encouraged to read it carefully in its entirety.

Currently, Nexus' Brochure may be requested by contacting Mr. Jamie R. Brown, Chief Compliance Officer at [jbrown@nexuslp.com](mailto:jbrown@nexuslp.com) or (424) 330-8820.

Additional information about Nexus is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Nexus is 168618. The SEC's web site also provides information about any persons affiliated with Nexus who are registered, or are required to be registered, as investment adviser representatives of Nexus.

## **IMPORTANT NOTE ABOUT THIS DISCLOSURE BROCHURE**

***This Disclosure Brochure is not:***

- ***an offer or agreement to provide advisory services to any person***
- ***an offer to sell interests (or a solicitation of an offer to purchase interests) in any Issuer***
- ***a complete discussion of the features, risks or conflicts associated with any Issuer***

As required by the Advisers Act, Nexus provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors in a pooled investment vehicle managed by Nexus, together with other relevant governing documents, such as the pooled investment vehicle's private placement memoranda, offering circular or prospectus and statement of additional information, prior to, or in connection with, such persons' investment in the pooled investment vehicle.

Although this publicly available Brochure describes investment advisory services and products of Nexus, persons who receive this Brochure (whether or not from Nexus) should be aware that it is designed solely to provide information about Nexus as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in relevant governing documents. More complete information about each pooled investment vehicle is included in relevant governing documents, certain of which may be provided to current and eligible prospective investors only by Nexus or the pooled investment vehicle's underlying sponsor. To the extent that there is any conflict between discussions herein and similar or related discussions in any governing documents, the relevant governing documents shall govern and control.

This Brochure includes information about Nexus and its relationships (including the relationships it expects to have) with clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein may only apply to specific clients (or may apply to future clients) or affiliates only. This brochure does not constitute an offer to sell or solicitation of an offer to buy any securities.

The descriptions set forth in this Brochure of specific advisory services that Nexus offers to its clients, and investment strategies pursued and investments made by Nexus on behalf of its clients, should not be understood to limit in any way Nexus' investment activities. Nexus may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that Nexus considers appropriate, subject to each client's investment policies, objectives and guidelines. The investment strategies Nexus pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.

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## Item 4 Advisory Business

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### **Firm Background**

Nexus is a Delaware limited partnership that was formed on July 9, 2013, for the purpose of providing discretionary portfolio management and investment advisory services. Nexus and its advisory affiliates are headquartered in Los Angeles, California. The primary principal owners of Nexus are Messrs. Damian J. Giangiacomo and Michael S. Cohen (each, a “Principal” and together, the “Principals”). Nexus Partners LLC (“Nexus Partners”), a Delaware limited liability company, is the general partner to Nexus Partners GP LP (“Nexus GP”), a Delaware limited partnership, the general partner to Nexus. The Principals control Nexus Partners and Nexus GP. Prior to founding Nexus, the Principals were both Partners at Apollo Global Management (“Apollo”), where they worked together in Apollo’s flagship Private Equity Group for thirteen (13) years, executing private equity, distressed debt and special situations investments. Led by Messrs. Giangiacomo and Cohen, Nexus has a seasoned team of investment professionals with over forty (40) years of collective investment experience across private equity and distressed credit. The Nexus investment team has collectively participated in over thirty (30) transactions, representing over \$10 billion of cumulative transaction value.

Nexus initially filed with the SEC as an exempt reporting adviser on August 7, 2013, and withdrew its exemption status on February 11, 2014 in order to transition its status to a SEC registered reporting adviser. Nexus was granted effective registration by the SEC on February 24, 2014 under the Advisers Act.<sup>1</sup>

Nexus does not act as a general partner of any of its affiliated pooled investment vehicles. Instead, certain of Nexus’ affiliates, including Nexus Special Situations GP II, L.P., Gateway GP PCO, L.P., Encore CPG Holdings GP, LLC, Nexus GP, Database Coinvest GP, LLC, Vine Mercury GP, LLC, and Wonder Coinvest GP, LLC serve as general partners to one or more of the pooled investment vehicles and have delegated exclusive investment advisory and other authority with respect to such pooled investment vehicles to Nexus (each a “General Partner” and collectively, the “General Partners”). See *Item 10 – Other Financial Industry Activities and Affiliations* of this Brochure for more information regarding Nexus’ affiliated entities.

### **Advisory Services**

Nexus offers discretionary (and non- discretionary) portfolio management and investment advisory (and sub-advisory) services to pooled investment vehicles and institutional separately managed accounts. Nexus currently provides discretionary portfolio management and investment advisory services to nine (9) affiliated (*i.e.*, sponsored) privately-offered pooled investment vehicles (collectively, the “Sponsored Private Funds”). Additionally, Nexus currently provides discretionary portfolio management and investment sub-advisory services to one (1) unaffiliated privately offered pooled investment vehicle (the “Non-Sponsored Private Fund”) which is advised by an unaffiliated investment adviser registered with the SEC. The Sponsored Private Funds and Non-Sponsored Fund are collectively referred to herein as the “Funds” or the “Clients”.

In the future, Nexus may provide discretionary (or non- discretionary) portfolio management and investment advisory services (directly or indirectly through a sub-advisory arrangement with the client’s primary investment adviser) to institutional separately managed accounts or other pooled investment vehicles. The

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<sup>1</sup> Registration of an investment adviser does not imply any level of skill or training.

type of Funds to which Nexus currently provides investment management services is more fully disclosed in Nexus' Form ADV Part 1 and summarized in *Item 7 – Types of Clients* of this Brochure.

Nexus pursues distressed, special situations and private equity investments primarily in middle market companies with capital structures between \$300 million and \$1.0 billion that are primarily based in the United States and operating in Nexus' core target industries, which include: (i) industrials; (ii) consumer, including retail and food; (iii) building products; and (iv) education (collectively, the "Core Industries"). By employing a deep-value, contrarian strategy, Nexus intends to target investments with asymmetric risk/return profiles primarily in its Core Industries that may require financing to fund a corporate event such as a buyout, recapitalization, ownership transfer, sourcing of expansion and growth capital or refinancing/restructuring. Nexus primarily pursues transactions in such middle market companies by investing in senior secured loans and other asset-based loans, stressed and distressed debt, investment and non-investment grade credit, and structured debt and equity. See *Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss* of this Brochure for more information on Nexus' investment strategies philosophy, context and process, including portfolio construction.

Nexus' investment advisory (or sub-advisory) services consist of managing a Fund's portfolio of investments, pursuant to an investment management agreement or other similar governing agreement (the "Management Agreement"), by providing origination, acquisition, asset management, and other administrative services to each respective Fund in accordance with each Fund's respective private placement memorandum, offering memorandum, offering circular, limited partnership agreement, or other similar disclosure and governing documents (collectively, the "governing documents"). Nexus' investment advisory (or sub-advisory) services consist of, but are not limited to, managing each Fund's portfolio of investments, including sourcing, selecting, and determining investments in each Fund, monitoring investments by each Fund and executing transactions on behalf of each Fund in accordance with the investment objectives, policies and guidelines set forth in each respective Fund's governing documents. Accordingly, Nexus' investment advisory services to the Funds is not tailored to the individualized needs or objectives of any particular Fund investor. An investment in a Fund by an investor does not, in and of itself, create an advisory relationship between the investor and Nexus. Investors are not permitted to impose restrictions or limitations on the management of any Fund. A Fund's general partner may enter into side letter agreements or arrangements with one or more investors in a Fund that alter, modify or change the terms of the interests held by such investors.

When Nexus serves as investment adviser (or sub-adviser), it enters into a written Management Agreement with each of its advisory Clients, as described herein above. Such Management Agreements include provisions related to each Client's management fees, investment strategy, investment guidelines, termination rights, proxy voting and sub-adviser, if applicable.

When Nexus serves as a sub-adviser, Nexus enters into a sub-advisory agreement with an unaffiliated investment adviser. These sub-advisory agreements typically include information related to Nexus' sub-advisory fee, investment strategy, investment guidelines, termination rights and proxy voting. The adviser enters into an investment management agreement with the end client.

### **Tailored Advice and Client-Imposed Restrictions**

Investments for each Client are managed in accordance with the Client's investment objectives, strategies, restrictions and guidelines and are generally not tailored to the individualized needs of any particular investor of the Client. Information about each Fund, and the particular investment objectives, strategies, restrictions, guidelines and risks associated with an investment, is described in each respective Fund's governing documents, which are made available to investors only through Nexus, the Fund's primary

investment adviser, or another authorized party. Since Nexus does not provide individualized advice to investors (and an investment in a Fund does not, in and of itself, create an advisory relationship between the investor and Nexus), investors must consider whether a particular Fund meets their investment objectives and risk tolerance prior to investing.

Nexus may tailor its advisory services to the individual needs of an institutional separate account client ("SMA") or to the individual needs of single investor fund ("SIF"). Nexus may agree with a SMA or SIF to manage such SMA's or SIF's assets against a particular benchmark or pursuant to an investment management agreement, which include provisions related to management fees, investment strategy, investment guidelines, termination rights, proxy voting and sub-adviser, if applicable. SMAs and SIFs should be aware, however, that certain restrictions can limit Nexus' ability to act and as a result, the SMA's or SIF's performance may differ from and may be more or less successful than that of other Clients' accounts managed by Nexus.

Prospective clients and prospective client investors must consider whether a particular Nexus advisory relationship is appropriate for their own circumstances based on all relevant factors including, but not limited to, the prospective client's own investment objectives, liquidity requirements, tax situation and risk tolerance. Prospective clients are strongly encouraged to undertake appropriate due diligence including, but not limited to, a review of governing documents relating to the proposed investment program for the SMA or SIF and to investigate additional details about Nexus' investment strategies, methods of analysis and related risks, before making an investment decision or committing to a service provided by Nexus. See *Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss* of this Brochure for a more detailed discussion on investment strategies and the risks involved with such strategies.

**ALL DISCUSSION OF A FUND IN THIS BROCHURE, INCLUDING BUT NOT LIMITED TO ITS INVESTMENTS, THE STRATEGIES USED IN MANAGING A FUNDS, AND CONFLICTS OF INTEREST FACED BY NEXUS IN CONNECTION WITH THE MANAGEMENT OF A FUNDS ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE RESPECTIVE FUND'S GOVERNING DOCUMENTS.**

#### **Wrap Fee Disclosure**

Nexus does not participate in or sponsor any wrap fee programs.

#### **Assets Under Management**

As of December 31, 2019, Nexus managed approximately \$1,176,204,730 of advisory assets, of which all were on a discretionary basis and none were on a non-discretionary basis. The SEC has adopted a uniform method for advisers to calculate assets under management for regulatory purposes which it refers to as an adviser's "regulatory assets under management." Regulatory assets under management are generally an adviser's gross assets, i.e., assets under management without deduction for outstanding indebtedness or other accrued but unpaid liabilities. Nexus reports its regulatory assets under management in Item 5 of Part 1 of Form ADV which you can find at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 5 Fees and Compensation

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In consideration for Nexus' investment advisory and other services, Nexus and/or certain of its affiliates generally are entitled to receive management fees, and may receive performance allocations, with respect to the Funds. While the fees and compensation applicable to each Fund are described in detail in the applicable governing documents, side letters and/or fee agreements, an overview of Nexus' basic fee schedule is summarized below. A potential investor should read and review all governing documents in their entirety before making any investment decisions.

### **Fee Schedules**

#### ***Sponsored Private Funds***

**Management Fees:** In consideration for its advisory services to the Sponsored Private Funds, Nexus receive a "Management Fee" from each respective Sponsored Private Fund. The specific payment terms and other conditions of the Management Fees available to Nexus are set forth in the applicable Sponsored Private Funds' governing documents, side letters and/or fee agreements. The Management Fees are generally a percent of the Sponsored Private Funds' investors aggregate capital commitments or a percent of the Sponsored Private Funds' total invested capital, on the appraisal date, payable quarterly or monthly in advance or in arrears. Management Fees are generally paid to Nexus in one of two ways: by deducting such fees from the applicable Sponsored Private Fund or directly billing the Sponsored Private Fund. Upon the termination of Nexus' Management Agreement with a Sponsored Private Fund, Nexus will refund to the Sponsored Private Fund the pro-rated portion of any Management Fee already received by the Sponsored Private Fund for the period following the effective date of such termination. Generally, the Sponsored Private Funds' General Partner and investors who are affiliates, employees or other designees of the General Partner or Nexus will not be subject to such Management Fees.

Nexus and its affiliates will benefit from Nexus' relationship with and its receipt of Management Fees from the Sponsored Private Funds. Such Management Fees and relationship will enhance the value of Nexus, and the Sponsored Private Funds' investors (other than those investors holding direct or indirect interests in Nexus) will not participate in any increase in the value of Nexus.

**Performance-Based Compensation:** In addition to the Management Fee, the General Partner for each respective Sponsored Private Fund may receive a "Performance-Based Fee" (e.g., carried interest) a percent of net profits, subject to loss carryforward provisions (and, in some cases, a "performance hurdle"). The specific payment terms and other conditions of the Performance-Based Fees available to a General Partner are set forth in the applicable Sponsored Private Fund's governing documents, side letters and/or fee agreements. Generally, Performance-Based Fees payable to the applicable General Partner are payable annually in arrears. All Performance-Based Fee payable to a General Partners will be consistent with the requirements of Section 205 of the Advisers Act and Rule 205-3 thereunder.

The size of the Performance-Based Fee varies and depends on a number of factors including, but not limited to, the level of Management Fee charged and the use of performance hurdles. Investors in a Sponsored Private Fund are allocated their pro rata share of Performance-Based Fees for the time period they are invested in the Sponsored Private Fund. These fee arrangements are more thoroughly described in the relevant Sponsored Private Fund's governing documents, side letters and/or fee agreements. Generally, the Sponsored Private Funds' General Partner and investors who are affiliates, employees or other designees of the General Partner or Nexus will not be subject to such Performance-Based Fees.



Performance-Based Fees payable to a General Partner on investment gains may create an incentive for the General Partner's affiliate, Nexus, to cause the Fund to make investments that are riskier or more speculative than would be the case if a performance-based compensation arrangement were not in effect. The Performance-Based Fees may create an incentive for Nexus to time investments, and the realization of investments, so as to maximize Performance-Based Fees rather than the returns of the Sponsored Private Fund. See *Item 6 – Performance-Based Fees and Side-By-Side Management* of this Brochure for more information about Performance-Based Fees.

Nexus' Management Fees and Performance-Based Fees are not inclusive of all fees. Please see below herein "Other Fees and Expenses".

The applicable General Partner and/or Nexus generally may have the unilateral discretion to waive or modify the application of certain provisions of the governing documents for a Sponsored Private Fund with respect to an investor (including those related to fees, performance allocations, transparency, and withdrawals) without obtaining the consent of any other investor. The applicable General Partner of a Sponsored Private Fund may, in its sole discretion, charge lower Management Fees and/or Performance-Based Fees or waive account minimums based on certain factors the General Partner deems relevant.

The General Partner, on behalf of a Sponsored Private Fund, may enter into side letter agreements with one or more Sponsored Private Fund investors providing for revised economic terms, including, but not limited to, distribution provisions with respect to such Sponsored Private Fund investor that differ from those set forth in the Sponsored Private Fund's governing documents. A conflict may arise where some Sponsored Private Fund investors receive more favorable overall economic terms and other Sponsored Private Fund investors will not participate in such terms.

As of the date of this Brochure, Nexus manages nine (9) Sponsored Private Funds for which it receives Management and Performance-Based Fees.

### ***Non-Sponsored Private Funds***

In consideration of Nexus' sub-advisory services provided to Non-Sponsored Private Funds that are managed by unaffiliated investment advisers by which Nexus in its capacity acts as sub-advisor, Nexus is entitled to receive a Management Fee from each respective sub-advised Non-Sponsored Private Fund's investment adviser pursuant to a negotiated Management Agreement. The specific payment terms and other conditions of the Management Fees available to Nexus are set forth in the applicable Management Agreement between the sub-advised Non-Sponsored Private Fund's investment adviser and Nexus. Such Management Fees are generally a percent of the sub-advised Fund's total invested capital, on the appraisal date, payable quarterly or monthly in advance or in arrears. The Management Fees are generally paid to Nexus by directly billing the applicable sub-advised Fund's investment adviser and not by deducting such fees from the applicable sub-advised Non-Sponsored Private Fund. Upon the termination of Nexus' Management Agreement with a sub-advised Non-Sponsored Private Fund, Nexus will refund to the sub-advised Non-Sponsored Private Fund's investment adviser the pro-rated portion of any Management Fee already received by Nexus for the period following the effective date of such termination. Nexus is generally required to pay its own expenses incurred in connection with providing sub-advised Non-Sponsored Private Funds with investment advisory services, pursuant to the Management Agreement.

Additionally, Nexus may receive Performance-Based Fees in connection with the management of each respective sub-advised Non-Sponsored Private Fund. The specific payment terms and other conditions of the Performance-Based Fees available to Nexus are set forth in the applicable negotiated Management Agreement between the sub-advised Non-Sponsored Private Fund's investment adviser and Nexus.

Performance-Based Fees are generally a certain percent of any increase of the net asset value above a high watermark or a percentage of excess return above a fixed hurdle rate. Generally, Performance-Based Fees payable to Nexus are payable quarterly, annually or more frequently in arrears. All Performance-Based Fee payable to Nexus will be consistent with the requirements of Section 205 of the Advisers Act and Rule 205-3 thereunder.

Performance-Based Fees payable to Nexus on investment gains may create an incentive for Nexus to cause a sub-advised Non-Sponsored Private Fund to make investments that are riskier or more speculative than would be the case if a performance-based compensation arrangement were not in effect. The Performance-Based Fees may create an incentive for Nexus to time investments, and the realization of investments, so as to maximize Performance-Based Fees rather than the returns of the sub-advised Non-Sponsored Private Fund. See *Item 6 – Performance-Based Fees and Side-By-Side Management* of this Brochure for more information about Performance-Based Fees.

As of the date of this Brochure, Nexus manages one (1) sub-advised Non-Sponsored Private Fund for which it receives Management and Performance-Based Fees.

### ***Separate Accounts***

Nexus' Management Fee for managing an institutional separate account are determined through negotiation with each Client and are set forth in the Management Agreement with the Client. The level of service may vary depending on individual circumstances and thus, fees are negotiable depending on time, effort, and expertise involved. Management Fees are generally structured as a fixed fee amount per year or as a percentage of assets under management for which advice and consultation is provided or a percentage of funds deployed for investments. Nexus may also collect Performance-Based Fees, which are generally based on a certain percent of any increase of the net asset value above a high watermark or a percentage of excess return above a fixed hurdle rate and generally payable quarterly, annually or more frequently in arrears. Separate account Clients who negotiate Performance-Based Fees may pay a lower base Management Fee. Separate account Clients generally are responsible for brokerage commissions, transfer taxes and other brokerage fees and investment expenses relating to investment instrument transactions in the separate account. Separate account Clients may incur operating and transaction fees, costs and expenses associated with maintaining their accounts imposed by custodians, brokers, futures commission merchants, prime brokers and other third-parties. Nexus does not receive any portion of these commissions, fees or costs. Management and Performance-Based Fees are computed and payable quarterly in arrears or on such other basis as is mutually agreed with each separate account Client.

As of the date of this Brochure, Nexus does not manage any separate accounts for which it receives Management and Performance-Based Fees. In the future Nexus may advise other types of Clients, including but not limited to separately managed account for high net worth individuals, institutions, and other sophisticated and qualified investors.

### **Other Fees and Expenses**

Organizational Expenses: Each Client, subject to its governing documents, will typically pay or otherwise bear its organizational expenses, subject to a specified expense cap which may vary from Client to Client. Any organizational expenses in excess of the specified expense cap will be borne by the applicable General Partner (or its equivalent) or offset against Management Fees. Such organizational expenses generally may include travel, printing, legal, capital raising, placement agent fees, accounting, regulatory compliance, (including the initial compliance contemplated by the Alternative Investment Fund Managers Directive or

any similar law, rule or regulation), any administrative or other filings, and other organizational expenses (collectively, the “Organizational Expenses”).

Operating Expenses: Each Client, subject to its governing documents, will typically pay or otherwise bear all of the direct and indirect fees, costs, expenses and other liabilities or obligations resulting from or arising in connection with its operations (collectively, the “Operating Expenses”). The Operating Expenses of a particular Client are set forth in its governing documents and/or through side letters and may include, without limitation, the following fees, costs and expenses related to or arising from: investment expenses (*i.e.*, expenses that Nexus reasonably determines to be related to the acquisition, holding and disposition of the Client’s assets, such as due diligence expenses, brokerage fees and commissions, expenses relating to clearing and settlement charges, custodial fees, bank service fees, interest expenses, taxes and expenses related to proposed investments that are not consummated), investment-related travel expenses, insurance expenses, legal expenses, professional fees (including, without limitation, expenses of consultants and experts) relating to investments, indemnification expenses of the Client, investor communication expenses, all unreimbursed out-of-pocket expenses of the Client relating to unconsummated transactions (including legal, accounting and consulting expenses), legal expenses, internal and external accounting expenses (including the cost of accounting software packages), auditing expenses, fees relating to the preparation of financial and tax reports, investor reports, portfolio valuations and tax returns of the Client, fees and expenses of any administrator or other service provider to the Client, interest, fees and expenses arising out of all permitted borrowings made by the Client, clearing and settlement charges, bank services fees, the costs of any litigation or threatened litigation, director or officer liability or other insurance and indemnification or extraordinary expense or liability relating to the affairs of the Client, all costs and expenses incurred in connection with the dissolution, liquidation and winding-up of the Client or any portfolio company investment, any sales or other taxes, fees or other governmental charges levied against the Client and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Client, costs and expenses (including travel-related expenses) of hosting annual or special meetings for the Client’s investors, or otherwise holding meetings or conferences with investors, expenses of the Client’s advisory board (including the costs of any counsel or other advisors engaged by the Client’s advisory board) and all other expenses of the Client.

The foregoing categories of fees, costs, expenses and other liabilities shall be Organizational Expenses and Operating Expenses, respectively, regardless of whether the person or entity providing or performing the service or output giving rise to such fees, costs, expenses or other liabilities is associated with the Client (such as the General Partner (or similar person) of such Client, Nexus or any of its respective affiliates) or is a third party. Any person associated with the Client is entitled to reimbursement from such Client or its portfolio investment for any Operating Expenses or Organizational Expenses paid and/or incurred by them on behalf of such Client. Nexus has discretion to seek reimbursement for Organizational Expenses and Operating Expenses and may choose not to seek reimbursement from certain Clients. In addition, if any service provider provides services to a Client on the premises of Nexus or its affiliates, such Client may also be responsible for any overhead, rent or other fees, costs, and expenses charged by Nexus or its affiliates in connection with the on-site arrangement.

Not all Clients will be subject to the same fees, costs and expenses. The Organizational Expenses and Operating Expenses listed above may vary from Client to Client and not all Clients will be subject to the same Organizational Expenses and Operating Expenses. Please reference the applicable Client’s governing documents for additional information regarding such Organizational Expenses and Operating Expenses. Similarly, a Client may also seek to negotiate terms, including fees and expenses payable to Nexus, through the negotiation of the applicable governing documents or through side letters and/or fee agreements.

*Allocation of Expenses:* Nexus and its affiliates from time to time incur fees, costs and expenses on behalf of more than one Client or multiple Clients. To the extent such fees, costs and expenses are incurred for the Client or benefit of more than one Client, each Client will typically bear an allocable portion of any such fees, costs, and expenses generally in proportion to the size of its investment in the activity or entity to which the expense relates (subject to the terms of each Client's applicable governing documents) or in such other manner as Nexus considers fair and equitable under the circumstances. Nexus endeavors to allocate such fees, costs and expenses on a fair and equitable basis over time.

#### **Transaction Fees and Management Fee Offsets**

With respect to certain Sponsored Private Funds, Nexus' Management Fee may be reduced by an amount equal to 100% of Transaction Fees attributable to investors in a Sponsored Private Fund not designated as "affiliated" by the Sponsored Private Fund's respective General Partner. "Transaction Fees" may include 100% of any: (i) directors' fees, financial consulting fees or advisory fees paid to the applicable General Partner with respect to any Sponsored Private Fund investment; (ii) transaction fees paid to the applicable General Partner with respect to any Sponsored Private Fund investment; and (iii) break-up fees with respect to Sponsored Private Fund transactions not completed that are paid to the applicable General Partner, in each case net of certain expenses (including those described below) as set forth in the applicable Sponsored Private Fund's governing documents; but not including, in any event, any amount received by the General Partner or other person from a portfolio company as reimbursement for expenses directly related to such portfolio company. The specific terms and other conditions of Transaction Fees and Management Fee Offsets are set forth in the applicable Sponsored Private Funds' governing documents, side letters and/or fee agreements.

#### **Sales-Based Compensation**

Nexus nor any of its supervised persons accepts compensation for the sale of securities or other investment products. This practice presents a conflict of interest and gives Nexus or its supervised persons an incentive to recommend investment products based on the compensation received, rather than on a particular Client's needs.

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

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As stated above in Item 5 of this Brochure, Nexus (or an affiliate) may receive Performance-Based Fees (e.g., carried interest or incentive fees) in connection with the management of the Funds. The specific payment terms and other conditions of the Performance-Based Fees available to Nexus (or an affiliate) are set forth in the applicable Fund's governing documents, side letters and/or fee agreements. The receipt of Performance-Based Fees from Funds may create an incentive for Nexus to make riskier or more speculative investments on behalf of Funds than they might otherwise make in the absence of such Performance-Based Fees. Performance-Based Fees may also incentivize Nexus to overvalue assets in order to increase the amount of its Performance-Based Fees. The performance on which Performance-Based Fees are calculated may, in certain circumstances, include unrealized appreciation and depreciation of investments that may not ultimately be realized and as a result may create an incentive for Nexus to time investments, and the realization of investments, so as to maximize Performance-Based Fees rather than the returns of the Fund.

Similarly, Nexus charges Management Fees to Funds that vary. Different Management Fees may incentivize Nexus to dedicate increased resources and allocate more profitable investment opportunities or best investment ideas to Funds who are charged Management Fees (or Performance-Based Fee arrangements) that are more profitable for Nexus. In addition, Nexus may be incentivized to allocate investment opportunities to Funds who either pay carried interest or a higher carried interest percentage to their respective General Partners or to Funds whose current performance does not require them to reimburse investors for losses attributable to prior unprofitable investments before distributing carried interest to their General Partners. Further, Nexus or its personnel or affiliates may have other pecuniary interests in the Funds managed by Nexus.

Performance-Based Fees are only charged to "qualified clients" in accordance with Rule 205-3 under the Advisers Act. In the future, not all compensation arrangements will necessarily include a performance component, and the rate and nature of the calculation of performance compensation and bonuses may vary.

### **SPECIFIC CONFLICTS OF INTEREST AND NEXUS' PRACTICES DESIGNED TO MITIGATE SUCH CONFLICTS OF INTEREST**

Like all investment advisers who advise multiple accounts or funds having different fee structures, Nexus and its personnel face actual and potential conflicts of interest, including an incentive to favor those Funds in which Nexus or its personnel have greater pecuniary interests over other Funds managed by Nexus. Such conflicts of interest and Nexus' practices that are designed to mitigate such conflicts of interest are discussed below. As a general matter, Nexus addresses such conflicts by following a thorough, detailed, and consistent investment decision-making process and by regular reviews of investments by Nexus' investment staff.

- **Allocation of Investments.** Nexus may have an incentive to allocate investment opportunities based on pecuniary interest. Nexus and its personnel will face a conflict of interest when considering how to allocate limited investment opportunities among Funds having different fee structures or pecuniary interests, including Funds in which an affiliate is an investor. Through its relevant policies and procedures, Nexus seeks to promote fair and equitable treatment of the Funds (including the allocation of investment opportunities), over time, based on considerations that are unrelated to pecuniary interests.

- **Compensation of Nexus and its Personnel.** Nexus and its personnel have an incentive to take on more risk when compensation is based on performance: The receipt of performance-based compensation and the payment of bonuses relating to performance of Funds creates an incentive to make riskier investments than might be made in the absence of performance-based compensation, as such compensation generally allows participation in gains in excess of exposure to losses. On the other hand, performance-based compensation encourages an alignment of long-term investment interests between the Funds and Nexus. Moreover, performance-based compensation may be subject to mechanisms designed to ensure that prior losses are recouped and/or a certain level of gains is achieved before any performance-based compensation accrues, such as loss carry forwards, hurdle rates, and/or high water marks. Furthermore, as discussed in more detail in Item 13 of this Brochure, Nexus reviews the portfolios of the Funds that it advises on a regular basis to monitor risk levels. In addition, engaging in high risk investment practices that cause adverse performance will have a negative impact on the receipt by Nexus of performance-based compensation and the receipt of discretionary bonuses paid to portfolio managers.
- **Performance-based Fees for Nexus and Valuations.** When Nexus' compensation is based on the value or performance of investments, Nexus has an incentive to value a position at a price higher than it might otherwise be valued or to accelerate or defer realizations. To the extent that performance allocations may be based on increases in the net assets of a Fund, Nexus' compensation would be based upon unrealized appreciation as well as realized appreciation. This means that Nexus may be compensated on performance that is ultimately not realized if positions decrease in value and are subsequently sold at a loss. The potential for inflated valuation of positions is increased when such positions are illiquid or otherwise lack a readily ascertainable market value. Nexus seeks to mitigate this conflict by valuing assets in accordance with its valuation policy, which is reasonably designed to assure that valuations are performed in a consistent and thorough manner that insulates the conflict. In general Nexus considers the views of outside experts, including third-party valuation firms, in determining the value of illiquid or other hard to value assets. Nexus further seeks, on a best effort basis, to receive third party valuations from broker/dealers for investment holdings of the Funds managed by Nexus.
- **Cross-Transactions.** Should Nexus engage in cross-transactions, it may have an incentive to favor Funds in which it has a greater pecuniary interest: Nexus may, from time to time, enter into cross-transactions between the various Funds it advises. Nexus will conduct such transactions in accordance with policies to promote fairness to all participating Funds (e.g., by assuring that an appropriate price is assigned to the security being crossed). Where required by law or the governing documents for a Fund, cross transactions are subject to the Fund's investors or advisory board consent prior to settlement. Information about said transaction, including the nature of the rebalancing transaction, the price at which it will be effected and Nexus' position as principal, if applicable, are provided to allow the Fund's investors or advisory board to determine whether or not to consent.
- **Other Conflict Mitigation Practices.** Many of the conflicts resulting from Performance-Based Fees and side-by-side management are mitigated by Nexus' relevant policies and procedures. As a general principle, Nexus requires that potential conflicts of interest be addressed by placing the Fund's interests before personal or proprietary interests. Nexus has also instituted policies to promote fair treatment of the Funds based on considerations unrelated to pecuniary interests to ensure that, wherever possible and over time, opportunities are allocated in a fair and equitable manner.

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## Item 7 Types of Clients

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As discussed in Item 4 of this Brochure, Nexus provides discretionary portfolio management and investment advisory services to large institutions and high net worth individuals, including but not limited to, state and local pensions, corporate pensions, endowments and foundations, regional banks and family offices mainly through privately-offered pooled investment vehicles (*i.e.*, the Funds).

Information about the Funds, and the particular investment objectives, strategies, restrictions, guidelines and risks associated with an investment in a Fund, is described in the respective Funds' private placement memorandum, offering memorandum, offering circular, limited partnership agreement, or other similar disclosure/offering or governing documents, which are made available to investors only through Nexus, the Fund's primary investment adviser, or another authorized party. In the future, Nexus may provide discretionary (or non- discretionary) portfolio management and investment advisory services (directly or indirectly through a sub-advisory arrangement with the client's primary investment adviser) to institutional separately managed accounts or other pooled investment vehicles. Nexus advise both U.S. and non-U.S. Clients. The Funds advised (or sub-advised) by Nexus may be organized as domestic or offshore (*e.g.*, non-U.S.) companies, limited partnerships, limited liability companies, corporate trusts or other legal entities, as determined appropriate by Nexus or the Fund's primary investment adviser.

Generally, investors participating in a Fund are required to meet certain suitability and net worth qualifications, such as (i) an "accredited investor" within the meaning of Rule 501 of Regulation D under the U.S. Securities Act of 1933, as amended (the "Securities Act") or (ii) a "qualified purchaser" as defined in Section 2(a)(51) of the 1940 Act. As such, the Funds Nexus manages are exempt from registration as an investment company through the exemption provided by Sections 3(c)(1) or 3(c)(7) of the 1940 Act. Typically, each investor in a Fund that is exempt from the registration requirements under Section 3(c)(7) of the 1940 Act is required to qualify as a "qualified purchaser" within the meaning of Section 2(a)(51) of the 1940 Act and is required to certify that it is at least an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act and non-U.S. investors are required to certify that they meet the requirements of the Regulation S safe harbor under the Securities Act; however, where Nexus does not charge Performance-Based Fees to a particular Client, investors will only be required to qualify as an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act. As noted above in Item 6 of this Brochure, if Nexus collects performance related compensation, investors will be required to meet the requirements of Rule 205-3 under the Advisers Act and certify that they are at least a "qualified client." A potential investor in a Fund should read and review all governing documents in their entirety for specific investor qualifications and before making any investment decisions.

To help the U.S. Government fight the funding of terrorism and money laundering activities, Nexus may seek to obtain, verify, and record information that identifies each investor who invests in a Client. In this regard, when an investor seeks to open an account with Nexus or invest in a Fund managed by Nexus (including a separately managed account), Nexus may ask for a completed Form W-8/W-9, as applicable, which includes the name, address, Tax ID/Employer ID number (or any other registration number issued in the jurisdiction of location or incorporation) and other reasonably required information that will allow Nexus to identify the investor. Nexus may ask for information and documentation regarding source of funds to be invested. Nexus also reserves the right to ask for more information regarding the individuals who are beneficial owners of the investor and/or exercise control over the investor. Nexus may ask for the names of such beneficial owners and may also ask for address, date of birth, and other information that will allow Nexus to identify such beneficial owners. Nexus may also request such other information as may be necessary to comply with applicable law. Furthermore, Nexus may verify any of the aforementioned

information using third-party sources and may share that information as required by applicable law or in connection with the execution of trades on behalf of that investor. For certain investors, Nexus may rely on the investor's broker-dealer, administrator, transfer agent, custodian or placement agent to obtain, verify and record the required information.

With respect to separately managed accounts, the minimum investment is determined on a case by case basis. Each Fund's minimum investment amount is stated in each respective Fund's governing documents. Nexus does not determine the minimum investment amount for Clients that is advises in a sub-advisory capacity. A potential investor in a Fund should read and review all governing documents in their entirety for specific investor qualifications and before making any investment decisions.



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

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The following is a summary of the investment strategies and methods of analysis employed by Nexus on behalf of its Clients. This summary should not be interpreted to limit in any way Nexus' investment activities. Nexus may offer any advisory services, provide advice with respect to any investment strategies and make any investments, including those that may not be described in this Brochure, that Nexus considers appropriate, subject to each Client's investment objectives and guidelines. Specific descriptions of such strategies and methods are included in each Client's governing documents. In the case of separate accounts managed by Nexus, the investment strategies and methods of analysis employed on behalf of each managed account will be set forth in the Management Agreement between the managed account and Nexus or in other related documents. There can be no assurance that the investment objectives of any Client will be achieved.

### **Methods of Analysis**

Nexus' investment process is built on a foundation of both private equity and distressed investing principles, which serves to create a disciplined approach to the identification, due diligence, and execution of investments with asymmetric risk-return characteristics. Nexus expects returns will be generated from a combination of: (i) current interest; (ii) principal appreciation of credit-oriented investments; and (iii) equity value creation of special situations investments and distressed investments that result in a restructuring. Post investment, the Principals have extensive experience being an active partner to companies, management teams and reorganization processes, where they seek to meaningfully impact investment outcomes by leveraging the Nexus value-creation "tool kit" that the Principals have developed over their careers. Nexus also has access to a wide network of operating executives that have extensive operational and financial experience within the target Core Industries.<sup>2</sup>

### *Bottom-Up Analysis*

Nexus will continue to pursue its differentiated strategy by seeking to leverage the investment team's deep experience in both private equity and distressed credit investing, and identify deep-value distressed and special situation opportunities that comport with Nexus' guiding investment tenets. Nexus is a fundamental, bottom-up investor that seeks to invest in leading companies that: (i) trade at material discounts to intrinsic value; (ii) execute value-added business models that yield attractive gross and EBITDA<sup>3</sup> margins; (iii) generate high annual free cash flow; and (iv) are believed to have the potential to generate an attractive annual gross internal rate of return.

Based on the Principals' experience, attractive distressed opportunities occur when leveraged companies are undergoing complex financial, operational, cyclical or structural change. Nexus seeks to specialize in making concentrated investments in opportunities where it believes it has the ability to positively impact value creation as an engaged partner with the company, management team, or restructuring process. By seeking absolute-return opportunities in a concentrated portfolio and primarily investing in distressed credit issued by other financial sponsors, Nexus seeks to be opportunistic across all economic and financial environments. Nexus' fundamental-based investment approach, combined with its flexible mandate of opportunistically investing in distressed credit and special situations, should allow the investment team to

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<sup>2</sup> Operating executives are not employees, members or partners of any Nexus entity and are not expected to have a carried interest in any investment made by a Fund. These executives may, however, receive compensation from Nexus portfolio investments. Such compensation will not result in offsets to or reductions of the Management Fee (as defined herein).

<sup>3</sup> Earnings before interest, taxes, depreciation and amortization ("EBITDA")

appropriately assess the risk-return equation throughout dynamic business and economic cycles, with the goal of generating higher returns for investors.

### *Core Industries*

Nexus targets industries that it believes benefit from favorable operational, financial and competitive characteristics. The four Core Industries that are Nexus' primary focus for Clients include: (i) industrials, (ii) consumer, including retail and food; (iii) building products; and (iv) education. The investment team has collectively participated in over thirty (30) transactions representing over \$10 billion of cumulative transaction value in Nexus' Core Industries.

### *Proprietary Sourcing Framework & Processes*

Over the years, Nexus has developed a proprietary sourcing framework and set of processes that allow Nexus to identify prospective investment opportunities from multiple channels, including via its proprietary secondary credit database. By establishing a weekly, monthly and quarterly process to evaluate the over 6,000 loan and bond issues currently in the market, Nexus believes it has a robust sourcing tool that provides Nexus with a consistent pipeline of potential distressed investment opportunities. Nexus' credit database captures all debt tranches of at least \$100 million issued by companies in its Core Industries and is revised on a regular basis for market activity and pricing, which assists the investment team in identifying potential distressed situations well before the point of severe distress. Among the various screening parameters used to identify the most attractive risk-return distressed opportunities are: (i) business quality; (ii) free cash flow characteristics; (iii) creation multiple; (iv) strategic importance within an industry; and (v) return potential.

In addition, the Principals have an extensive network of relationships across the financial and restructuring community, including with bankers, advisors and distressed trading specialists. This proprietary framework and set of processes provides Nexus with a robust pipeline of potential distressed investment opportunities across its Core Industries.

### *Investment Assessment and Due Diligence Process*

Nexus targets investments predicted on its foundational philosophy: to seek to invest in leading companies at material discounts to intrinsic value with significant downside protection to invested capital and multiple paths to creating upside. By instituting a disciplined and patient investment process, Nexus believes that investing in leading businesses in superior industries at low prices will provide greater preservation of invested capital.

- **Focus on Downside Protection to Invested Capital:** Nexus believes capital preservation is critical in any investment decision. Nexus focuses on downside protection prior to accumulating a position, utilizing its absolute deep-value fundamental analysis, with a particular focus on, among other things, business quality, priming leverage and absolute valuation multiples. Nexus seeks opportunities with multiple layers of protection to invested capital, and strongly believes that underlying risk is intrinsically linked to: (i) industry dynamics; (ii) business quality; and (iii) entry valuation. Nexus evaluates these attributes on a qualitative and quantitative basis, and believes the value-add and quality of a prospective business can be empirically evaluated through a combination of gross margin, EBITDA margin and EBITDA-Capex margin<sup>4</sup>. Nexus also believes that entry valuation is an important variable in generating returns, and as such seeks opportunities

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<sup>4</sup> These metrics are based on a one year period. EBITDA margin is based on the ratio of EBITDA, which is a company's net income plus interest expense, taxes, depreciation, amortization and other non-operating or non-recurring expenses, divided by revenue. EBITDA-Capex Margin is based on the ratio of EBITDA-Capex, which is a company's EBITDA minus capital expenditures, divided by revenue.

at low absolute valuation multiples and at material discounts to long-term comparable multiples and intrinsic value.

- ***Invest Behind High Free Cash Flow:*** Substantial cash flow generation creates a high degree of optionality for Nexus and enables it to manage the respective portfolio investment, both offensively and defensively. It also helps to protect a Fund's invested capital in down markets, while further preserving and creating optionality in up markets. High free cash flow generation ultimately affords a company additional time to navigate economic or business specific volatility. On the upside, free cash flow offers the potential for Nexus to leverage its value-creation "tool kit" so as to create equity value for shareholders through direct cash distributions, recapitalizations of the balance sheet, and opportunistic M&A initiatives.
- ***Multiple Paths to Creating Long-Term Value:*** Nexus intends to underwrite investments with multiple perceived paths of value creation, as this approach helps create an appropriate return profile even in the event there is an unforeseen deviation from the investment base case. While each individual investment situation will have a specific prescription to seek to create value, desired investment attributes include: (i) organic EBITDA growth; (ii) strong free cash flow generation; and (iii) opportunity for valuation multiple expansion.

These guiding principles enable Nexus to seek to capitalize on investment opportunities where invested capital can be preserved on the downside and that have the potential for attractive returns on the upside. This asymmetric risk-return dynamic provides the conviction upon which to: (i) make an initial investment in size; (ii) maintain a concentrated portfolio; and (iii) have the perseverance to further capitalize during periods of technical volatility.

#### *Nexus Value-Creation "Tool Kit"*

Post-investment, Nexus takes a control-oriented mindset with its portfolio companies through restructurings and as equity holders. The Principals have extensive experience being an active partner to companies, management teams and reorganization processes, where they seek to meaningfully impact investment outcomes by leveraging the Nexus value-creation "tool kit" that the Principals have developed over their careers. Nexus' value-creation skillset is garnered from a combination of: (i) a deep understanding of business operations within the Core Industries; (ii) a focus on capitalizing on dislocations in the credit market to create "value on the buy;" (iii) access to a wide network of knowledgeable operating executives that have extensive operational and financial insight; and (iv) ability to create and/or extract value through the Principals' capital structure expertise. Nexus seeks to create value in a Fund's investments by driving operational, strategic and financial improvements.

With each new investment, Nexus determines a specific prescription to seek to create value, utilizing its extensive value-creation "tool kit", which includes: (i) capital structure changes; (ii) capital allocation improvements; (iii) operational efficiencies; (iv) changes in strategic positioning; and (v) M&A transactions. Nexus' underwriting criteria require multiple paths to creating upside and Nexus expects to work with companies to prioritize the implementation of these value-enhancing initiatives.

Nexus will actively monitor value-creation progress throughout a portfolio investment's life cycle. As part of its investment process, Nexus regularly re-underwrites its investments in an effort to ensure that they assess the appropriate risk-reward profile. Nexus has the discipline to exit an investment if it perceives an unforeseen change to underlying risks and downside protection. The average life of a portfolio investment is expected to be three to four years; however, Nexus will continually assess incremental returns on an ongoing basis.

## **Investment Strategy**

Each Client's investment strategy is outlined in its applicable governing documents. Nexus' objective is to achieve attractive risk-adjusted returns across all economic cycles. Nexus pursues distressed and special situations investments in middle market companies with capital structures between \$300 million and \$1.0 billion that are primarily based in the United States and operating in Nexus' core target industries, which include: (i) industrials; (ii) consumer, including retail and food; (iii) building products; and (iv) education (collectively, the "Core Industries"). By employing a deep-value, contrarian strategy, Nexus intends to target investments with asymmetric risk/return profiles primarily in its Core Industries that may require financing to fund a corporate event such as a buyout, recapitalization, ownership transfer, sourcing of expansion and growth capital or refinancing/restructuring. Nexus primarily pursues transactions in such middle market companies by investing in senior secured loans and other asset-based loans, stressed and distressed debt, investment and non-investment grade credit, and structured debt and equity.

Client strategies involve a high degree of uncertainty. The possibility of partial or total loss of capital will exist in connection with such strategies, and investors should not invest unless they can readily bear the consequences of such loss.

## **Risks of Loss**

Investing in securities in general involves the risk of loss that investors should be prepared to bear. Each Client account, if any, has risks which are specific to its particular investment strategies. For more information about the risks of each Client, please see the governing documents for that particular Client. Generally, however, investors in Nexus' managed Funds are exposed to, including but not limited to, the following risks:

**No Assurance of Investment Returns.** Nexus cannot give Clients assurance that investments will generate returns or that returns will be commensurate with the risks of investing in the type of companies and transactions that fall within such Clients' individual investment objectives.

**Substantial Fees and Expenses.** Clients typically pay Management Fees, Organizational Expenses and Operating Expenses as set forth in their governing documents, whether or not they make any profits. While it is difficult to predict the future expenses of Clients, such expenses may be substantial. Please see Item 5 of this Brochure for additional information on fees and expenses.

**Business and Market Risks.** Investments may involve a high degree of business and financial risk, which could result in substantial loss to a Client. In particular, these risks could arise from changes in the financial condition or prospects of the entity in which the investment is made, changes in national or international economic and market conditions, and changes in laws, regulations, fiscal policies, or political conditions of countries in which investments are made, including the risks of war and the effects of terrorist attacks on security operations. The possibility of partial or total loss of capital will exist.

**General Market Risks.** Recent legal and regulatory changes, and additional legal and regulatory changes that could occur during a Client's applicable term, may adversely impact Clients. The regulation of the US and non-US securities and futures markets and investment funds has undergone substantial change in recent years and such change may continue. The effect of such new regulations on Clients, while impossible to predict, could be substantial and adverse and may, directly or indirectly, subject Clients to increased capital requirements, fees and expenses, as well as limits on the types of investors they may solicit. The full effect of recent and future legislation cannot yet be known.

Laws and regulations, particularly those involving taxation, investment and trade, applicable to the activities of a Client can change quickly and unpredictably, and may at any time be amended, modified, repealed or replaced in a manner adverse to the Client's interests. It is impossible to predict what, if any, changes in regulation applicable to Clients or Nexus, the markets in which they trade and invest or the counterparties with which they do business may be instituted in the future. Clients and/or Nexus may be or may become subject to unduly burdensome and restrictive regulation.

In recent years, due to events in the financial markets, the financial services industry generally, and the activities of private funds and their managers in particular, have been subject to intense and increasing regulatory scrutiny in the United States and in other jurisdictions. Such scrutiny and accompanying regulatory changes may increase the exposure of Clients to potential liabilities and to legal, compliance and other related costs and may have an adverse effect on private funds generally, and in particular, on the ability of Clients to achieve their investment objectives. The private fund industry may continue to be adversely affected by the recent developments in the financial markets in the U.S. and abroad going forward, and any future legal, regulatory, or governmental action and developments in such financial markets and the broader global economy could have an adverse effect on the business of Clients, operations and performance.

The entire market or particular instruments traded on a market may decline even if earnings or other factors improve inasmuch as the prices of such instruments are subject to numerous economic, political, psychological and other factors that have little or no correlation to the performance of a particular company. A Client may elect to hedge against market movements or the credit or other risks of any particular portfolio investment, whether by means of a derivative or other financial product or instrument. To the extent that Clients engage in certain hedging transactions, there can be no assurances that such hedging will insulate such Client from risks, and hedging techniques, whether via a derivative or other product or instrument, may give rise to certain costs and additional risks, including a risk of the total loss of any amounts invested in hedging instruments.

***Regulation and Enforcement; Litigation.*** Clients are subject to regulation by laws at local and national levels and in multiple jurisdictions, including foreign countries. Specific and general regulations addressing capital markets, including tax laws and regulations, whether in the United States or abroad, could increase the cost of acquiring, holding, or divesting portfolio investments, the profitability of investments, and the costs of operating the Clients. Additional regulation could also increase the risk of third-party litigation.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), among other things, granted regulatory authorities such as the Commodity Futures Trading Commission (the "CFTC"), the SEC and the Consumer Financial Protection Bureau (the "CFPB") broad rulemaking and enforcement authority to implement and oversee various provisions of the Dodd-Frank Act, including comprehensive regulation of the over-the-counter derivatives and consumer finance markets. These expanded powers have resulted in rules that could adversely affect Clients or investments made by Clients.

Clients may be subject to state and federal regulation, borrower disclosure requirements, limits on fees and interest rates on some loans, state lender licensing requirements, and other regulatory requirements in the conduct of its business as an originator, lender, acquirer, or servicer of consumer and commercial loans. In circumstances in which a state license is required, the applicant may experience delays in obtaining licenses due to the application requirements and processes involved. Clients may also be subject to consumer disclosures and substantive requirements on consumer loan terms and other federal regulatory requirements applicable to consumer lending that are administered by the CFPB. These state and federal regulatory programs are designed to protect borrowers, not to protect investors in the Client. Compliance

with these regulatory requirements imposes staffing, legal, compliance and other costs and administrative burdens.

In addition, there can be no assurance that the Clients, their General Partners, Nexus or any of their affiliates will avoid regulatory examination or enforcement actions. Even if an investigation or proceeding does not result in a sanction being imposed against Nexus or any of its affiliates, or such sanction is small in monetary amount, the Clients, their General Partner, Nexus and/or their respective affiliates may be subject to adverse publicity relating to the investigation, proceeding or imposition of such sanctions. There is also a risk that regulatory agencies in the United States and abroad will continue to adopt, change or enhance new or existing laws or regulations, which may result in additional regulatory scrutiny.

Consumer lending is subject to greater regulatory complexity and regulatory attention than is commercial lending, and engaging in consumer lending results in higher staffing and administrative costs and regulatory and litigation risks. The applicable federal consumer financial laws include, among others, the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Fair Credit Reporting Act, privacy protections of Title V of the Gramm-Leach Bliley Act, and the Bank Secrecy Act, and their implementing regulations and related supervisory guidance and interpretations. States have additional consumer protection laws regulating financial transactions, such as usury and fee limits, and laws that are analogous to the above listed federal laws. Additional legislation and regulation could amend or increase Client obligations and regulatory oversight when engaging in consumer finance activities.

State and federal regulators and other governmental entities have authority to bring administrative enforcement actions or litigation to enforce compliance with applicable lending or consumer protection laws, with remedies that can include fines and monetary penalties, restitution to borrowers, injunctions to conform to law, or limitation or revocation of licenses and other remedies and penalties. In addition, lenders and servicers may be subject to litigation brought by or on behalf of borrowers for violations related to unfair or deceptive or, in the case of consumer borrowers, abusive practices. Failure to conform to applicable regulatory and legal requirements could be costly and could result in state or federal legal action seeking penalties or consumer redress or in a state or the CFPB prohibiting Clients from operating certain businesses within their jurisdictions.

Clients may also indirectly be affected by regulation of banks and other financial services firms with which the Clients do business, from which they obtain financing or other services, or to which they seek to sell interests in loan securitizations. The regulatory regimes applicable to financial services firms with which Clients do business may increase borrowing costs or limit the terms or availability of credit, affect the terms or pricing of loan securitizations, affect the collectability of loans, or have other indirect effects.

Title VII of the Dodd-Frank Act provided for a sweeping overhaul of the regulation of privately negotiated derivatives. The CFTC has been granted broad regulatory authority over “swaps,” which term has been defined in the Dodd-Frank Act and related CFTC rules to include derivatives. Title VII may affect Clients’ ability to enter into derivative transactions, may increase the costs in entering into such transactions, and/or may result in Clients entering into such transactions on less favorable terms than prior to effectiveness of the Dodd-Frank Act. For example, Clients may be required to clear certain interest rate hedging transactions by submitting them to a derivatives clearing organization. In addition, to the extent Clients are required to clear any such transactions, they will be required to, among other things, post margin in connection with such transactions. The occurrence of any of the foregoing events may have an adverse effect on Clients’ businesses and their financial returns.

Section 619 of the Dodd-Frank Act, more commonly known as the Volcker Rule, has been implemented by final interagency rules adopted in December 2013. Among other things, the Volcker Rule imposes new requirements on asset-backed securities and pooled investments in loans and other assets that U.S. banks and their affiliates are permitted to own. Although the conformance period for certain pre-2014 investments in private funds by banks has been extended to July 2017, the Volcker Rule may cause banks and their affiliates to divest existing holdings and limit new investments in non-conforming securities and thereby limit the marketability of asset-backed and pooled investments that do not meet the new requirements established by the Volcker Rule. This may result in reduced prices or illiquidity of portfolio assets.

These new and expanded regulations and regulatory powers may reduce returns to investors in consumer and commercial loan portfolios as a result of, among other things, additional compliance and administrative expenses, failure to obtain full repayment on portfolio loans, administrative enforcement actions and fines by state or federal regulators and civil litigation against holders of loans, and/or a reduction in the availability of appropriate loans for investment. Similarly, violations of law or regulation by the originators or servicers of consumer and commercial loans held directly or indirectly by investors could result in the originators or servicers being subject to administrative fines or penalties, borrower restitution obligations, or other consequences that could negatively impact investors in such loans.

In addition, certain Clients invest in distressed investments and, as a result, there is a possibility that Nexus or its affiliates will participate in restructuring activities. It is possible that certain Clients will become involved in litigation with respect to creditor disputes and similar issues among classes of claimants. Litigation entails expense and the possibility of counterclaims against such Clients including their General Partners and Nexus, and ultimately, judgments may be rendered against a Client for which such Client does not carry insurance.

***Monetary Policy and Governmental Intervention.*** As part of the response to the 2008 global financial crisis, the U.S. Federal Reserve (the “Federal Reserve”) and global central banks, including the European Central Bank, have – in addition to other governmental actions to stabilize markets and seek to encourage economic growth – acted to hold interest rates to historic lows. It cannot be predicted with certainty when, or how, these policies will change, but actions by the Federal Reserve and other central bankers may have a significant effect on interest rates and on the U.S. and world economies generally, which in turn may affect the performance of the investments of Clients. Further financial crises may result in additional governmental intervention in the markets. In addition, the consequences of the extensive changes to the regulation of various markets and market participants contemplated by the legislation and increased regulation arising out of the financial crisis are difficult to predict or measure with certainty.

***Non-U.S. Currency Risks.*** Certain Clients may make investments that are denominated in non-U.S. currency and therefore are subject to the risk that the value of a particular currency will change in relation to one or more other currencies, including generally the currency in which the books of the Client are kept and contributions and distributions generally will be made. Among the factors that may affect currency values are trade balances, the level of short term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. The Client will incur costs in converting investment proceeds from one currency to another. Nexus may, but are under no obligation to, employ hedging techniques to minimize these risks, although there can be no assurance that such strategies will be effective. Investments in any country in which U.S. dollars are not the local currency may be affected by such changes in the value of foreign exchange between the U.S. dollar and such currency. Such changes may have an adverse effect on the value, price or income of the investment to such prospective investors. There may also be foreign exchange regulations applicable to investments in non-U.S. currencies in certain jurisdictions.

**Alternative Investment Fund Managers Directive.** The Alternative Investment Fund Managers Directive (“AIFMD”) provides a framework for the European Union (“EU”) to regulate managers of alternative investment funds that are not Undertakings for the Collective Investment of Transferable Securities, but which are marketed or managed in the EU. It came into force on June 22, 2013, and was required to be implemented by member states (“EEA Member States”) of the European Economic Area (“EEA”), (in the case of EEA Member States that are not members of the EU, subject to AIFMD being incorporated into the EEA Agreement), by no later than July 22, 2013 (although some EEA Member States still have not met this deadline). Since then, AIFMD has restricted the extent to which Clients can be marketed to potential investors in the EEA. The AIFMD imposes significant regulatory requirements on investment managers operating within the EEA, including with respect to conduct of business, regulatory capital, valuations, disclosures and marketing, and rules on the structure of remuneration for certain personnel. Alternative investment funds (i) organized outside of both the EU and those of the additional EEA Member States which have implemented AIFMD and (ii) in which interests are marketed under AIFMD within the EEA, are subject to significant conditions on their operations. In the immediate future, such funds may be marketed only in certain EEA jurisdictions and in compliance with requirements to register the fund for marketing in each relevant jurisdiction and to undertake periodic investor and regulatory reporting including, among other items, the risk and portfolio profile of each Client which is marketed in that regulator’s jurisdiction. Additional requirements and restrictions apply where Clients invest in an EEA portfolio investment, including restrictions that may impose limits on certain investment and realization strategies, such as dividend recapitalizations and reorganizations. Such rules could potentially impose significant additional costs on the operation of Nexus’ business or investments in the EEA and could limit Nexus’ operating flexibility within the relevant jurisdictions. In some countries, additional obligations are imposed: for example, in Germany and Denmark, marketing of a non-EEA fund now also requires the appointment of one or more depositaries (with cost implications for the fund). Depending on the activities of each Client, additional restrictions on investment activities may also apply if they are to be marketed to EEA investors. Accessing EEA investors may be more difficult and Client costs may increase to reflect the additional burdens.

**FCPA Considerations.** Nexus is committed to complying with the U.S. Foreign Corrupt Practices Act (“FCPA”) and other anti-corruption laws, anti-bribery laws and regulations, as well as anti-boycott regulations, to which they are subject. As a result, Clients may be adversely affected because of their unwillingness to participate in transactions that violate such laws or regulations. Such laws and regulations may make it difficult in certain circumstances for Clients to act successfully on investment opportunities and for portfolio companies to obtain or retain business.

In recent years, the U.S. Department of Justice and the SEC have devoted greater resources to enforcement of the FCPA. In addition, the United Kingdom has significantly expanded the reach of its anti-bribery laws. While Nexus has developed and implemented policies and procedures designed to ensure strict compliance by Nexus and its personnel with the FCPA, such policies and procedures may not be effective to prevent violations in all instances. In addition, in spite of Nexus’ policies and procedures, portfolio companies or other entities in which a Client’s affiliates of portfolio companies, particularly in cases where a Client or another Nexus-sponsored fund or vehicle does not control such portfolio investment, may engage in activities that could result in FCPA violations. Any determination that Nexus has violated the FCPA or other applicable anticorruption laws or anti-bribery laws could subject it to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect Nexus’ business prospects and/or financial position, as well as a Client’s ability to achieve its investment objective and/or conduct its operations.



***Pay-to-Play Laws, Regulations and Policies.*** A number of U.S. states and municipal pension plans have adopted so-called “pay-to-play” laws, regulations or policies which prohibit, restrict or require disclosure of payments to (and/or certain contacts with) state officials by individuals and entities seeking to do business with state entities, including those seeking investments by public retirement funds. The SEC has adopted rules that, among other things, prohibit an investment adviser from providing advisory services for compensation to a government client for two years after the adviser or certain of its executives, employees or agents makes a contribution to certain elected officials or candidates. If any of Nexus’ employees or affiliates or any service provider acting on their behalf fail to comply with such laws, regulations or policies, such non-compliance could have an adverse effect on Clients.

***Possibility of Fraud and Other Misconduct of Employees and Service Providers.*** Misconduct by employees of Nexus, service providers to Clients and/or their respective affiliates could cause significant losses to such Clients. Misconduct may include entering into transactions without authorization, the failure to comply with operational and risk procedures, including due diligence procedures, misrepresentations as to investments being considered by such Clients, the improper use or disclosure of confidential or material non-public information, which could result in litigation, regulatory enforcement or serious financial harm, including limiting the business prospects or future marketing activities of such Clients, and non-compliance with applicable laws or regulations and the concealing of any of the foregoing. Such activities may result in reputational damage, litigation, business disruption and/or financial losses to such Clients. Nexus has controls and procedures through which they seek to minimize the risk of such misconduct occurring. However, no assurances can be given that Nexus will be able to identify or prevent such misconduct.

***Changes in Investment Focus.*** Clients may not be restricted in terms of the percentage of their capital that can be invested in a particular industry, geographical region or type of investment. While a Client’s disclosure and/or governing documents generally contain a description of the types of investments that other Clients have historically made and/or information about Nexus’ expectations with respect to such Client, many factors may contribute to changes in emphasis in the construction of such Client’s portfolio, including changes in market or economic conditions or regulation as they affect various industries and changes in the political or social situations in particular countries. There can be no assurance that the investment portfolio of any Client will resemble the portfolio of any prior Client.

***Lack of Liquidity of Investments.*** Clients’ portfolio investments generally consist primarily of debt investments, including, but not limited to, bonds, senior secured loans, unsecured loans, second lien loans, debtor-in-possession financings, delayed drawdown loans and revolving bank loans. Loans are not generally traded on organized exchange markets but rather would typically be traded by banks and other institutional investors engaged in loan syndications. The liquidity of portfolio investments will therefore depend on the liquidity of this market. Trading in loans is subject to delays as transfers may require extensive and customized documentation, the payment of significant fees and the consent of the agent bank or underlying obligor. In addition, certain investments may be subject to legal or contractual restrictions or requirements that limit the Client’s ability to transfer them or sell them for cash. The resulting illiquidity of these investments may make it difficult for a Client to sell such investments if the need arises. If a Client needs to sell all or a portion of its portfolio over a short period of time, it may realize significantly less value than the value at which it had previously recorded those investments. There can be no assurance that Clients will be able to generate returns for their investors or that the returns will be commensurate with the risks of investing in the types of instruments described herein. As noted above, there is a possibility of partial or total loss of capital as a result of such constraints.

***Possible Lack of Diversification.*** Each Client may concentrate its portfolio investments by investing all of its assets in only a few issuers, industries or countries. By investing in a limited number of portfolio

investments, the aggregate returns realized by a Client may be substantially affected by the unfavorable performance of a small number of such portfolio investments.

**Leverage.** Clients, in certain instances, borrow and utilize various other forms of leverage, and expect to operate with a significant leverage ratio. Although leverage presents opportunities for increasing a Client's total return, it has the effect of potentially increasing losses as well. If income and appreciation on investments made with borrowed funds are less than the cost of the leverage, the total return of the leveraging Client will decrease. Accordingly, any event which adversely affects the value of a portfolio investment would be magnified to the extent a Client is leveraged. The cumulative effect of the use of leverage by Clients in a market that moves adversely to such Clients' investments or in the event portfolio investments experience credit quality deterioration could result in a substantial loss to Clients that could be substantially greater than if such Clients were not leveraged. In addition, contractual demands by lenders to a Client to reduce its leverage may force such Client to sell investments on an emergency basis at prices less than those obtainable in a more orderly liquidation. To the extent that a creditor has a claim on a Client, such claim would be senior to the rights of an investor in the Client. As a result, if a Client's losses were to exceed the amount of capital invested, an investor could lose its entire investment.

**Usury Considerations.** The loans made by Clients are subject to the provisions of various background laws, including state usury laws, which may limit the amount of interest, broadly defined, that may be charged with respect to a loan. The violation of applicable usury laws may lead to financial penalties, rescission rights or other borrower remedies. Although Nexus does not intend to engage in conduct that it expects would violate any applicable usury laws, the potential exists for a borrower to assert that the usury laws of particular jurisdiction apply to a loan transaction.

**Financing Arrangements.** To the extent that a Client enters into financing arrangements in the future, such arrangements may contain provisions that expose it to particular risk of loss. For example, any cross-default provisions could magnify the effect of an individual default. If a cross-default provision were exercised, this could result in a substantial loss for a Client. Also, Clients may enter into financing arrangements that contain financial covenants that could require them to maintain certain financial ratios. If a Client were to breach the financial covenants contained in any such financing arrangement, it might be required to repay such debt immediately, in whole or in part, together with any attendant costs, and the Client might be forced to sell some of its assets to fund such costs. Certain Clients may also be required to reduce or suspend distributions. Such financial covenants would also limit the ability of Nexus or Client to adopt the financial structure (e.g., by reducing levels of borrowing) that it would have adopted in the absence of such covenants. In addition, pursuant to the partnership agreements of certain Clients, the General Partner is permitted to pledge the capital commitments of the investing clients to secure financing arrangements for the Client. The investing clients may be required to honor their capital commitments to permit the Client to pay debt rather than to make investments.

**Investments in Distressed Securities and Restructurings.** Certain Clients may make investments in restructurings that involve companies that are experiencing or are expected to experience severe financial difficulties. These financial difficulties may never be overcome and may lead to uncertain outcomes, including causing a company to become subject to bankruptcy proceedings. Investments in a financially troubled company could, in certain circumstances, subject the applicable Client to additional liabilities that may exceed the value of the Client's original investment in the company. For example, under certain circumstances, a lender who has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to Clients or distributions by Clients to their investors may be reclaimed if any such payment or distribution is later

determined to have been a fraudulent conveyance, a preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, investments in restructurings may be adversely affected by statutes related to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims or re-characterize investments made in the form of debt as equity contributions.

***Hedging Policies/Risks.*** In connection with certain investments, Clients may employ hedging techniques designed to reduce the risks of adverse movements in interest rates, securities prices, commodities prices, currency exchange rates, as well as other risks. While such transactions may reduce certain risks, hedging transactions themselves entail other risks. Thus, while Clients may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates, securities prices, commodities prices, currency exchange rates or other factors may result in a poorer overall performance for Clients that enter into hedging transactions.

***Uncertainty of Financial Projections.*** As part of its due diligence of a potential investment, Nexus for a Client investing in securities or interests in a company generally may do so on the basis of the company's financial projections. Projected operating results normally will be based primarily on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a material adverse impact on the reliability of such projections and the performance of any investment in such company.

***Participation Interests.*** Certain Clients may purchase participation interests in debt instruments that do not entitle the holder thereof to direct rights against the obligor. Participations held by a Client in a selling institution's portion of a debt instrument typically result in a contractual relationship only with such selling institution, not with the obligor. Clients generally have the right to receive payments of principal, interest and any fees to which they are entitled only from the selling institution selling the participation and only upon receipt by such selling institution of such payments from the obligor. In connection with purchasing participations, a Client generally will have no rights to enforce compliance by the obligor with the terms of the related loan agreement, and no rights of set-off against the obligor, and such Client may not benefit directly from the collateral supporting the debt instrument in which it has purchased the participation. As a result, Clients will assume the credit risk of both the obligor and the selling institution selling the participation. In the event of the insolvency of such selling institution, Clients may be treated as general creditors of such selling institution and may not benefit from any set-off between such selling institution and the obligor. When Clients hold a participation in a debt instrument, they may not have the right to vote to waive enforcement of any restrictive covenant breached by an obligor. In addition, if a Client does not vote as requested by the selling institution, it may be subject to repurchase of the participation at par. Selling institutions voting in connection with a potential waiver of a restrictive covenant may have interests different from those of the Client, and such selling institutions may not consider the interests of the Client in connection with their votes.

***Need for Follow-On Investments.*** Following a Client's initial investment in securities of a given portfolio company, the Clients may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company (whether for opportunistic reasons, to fund the needs of the business or for other reasons). There is no assurance that the Client will make follow-on investments or that the Client will have sufficient funds to make all or any of such investments. Any decision by the Client not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment.

***Failure to Make Capital Contributions.*** If a Client's investor fails to pay when due installments of their commitment to the Client, and the contributions made by non-defaulting Client investors and borrowings by the Client are inadequate to cover the defaulted capital contribution, such Client may be unable to pay its obligations when due. As a result, the Client may be subjected to significant penalties that could materially adversely affect the returns to the Client's investors (including non-defaulting investors)

***Significant Adverse Consequences for Default.*** The respective governing documents for each applicable Client generally provide for significant adverse consequences in the event a Client's investor defaults on their commitment or any other payment obligation. In addition to losing its right to potential distributions from the Client, a defaulting investor may be forced to transfer its interest in the Client for an amount that is less than the fair market value of such interest and that may be paid over a period of up to ten years, without interest.

***Synthetic Securities.*** Certain Clients may invest in synthetic securities such as swaps (including total return swaps), synthetic swaps, over-the-counter transactions and other derivative instruments. Investments through the purchase of synthetic securities present risks in addition to those resulting from direct purchases of the underlying securities or assets. With respect to synthetic securities, Clients usually will have a contractual relationship only with the counterparty of such synthetic security and not the underlying obligor. The collapse of certain financial institutions may be indicative of increased counterparty risk with respect to, among other things, transactions involving synthetic securities. Additionally, the transparency of the financial statements issued by financial institutions, particularly with respect to the value of complex financial assets, has been called into question. Clients generally will have neither the right to enforce directly compliance by the underlying obligor, nor any voting or other consensual rights of ownership with respect to the underlying obligation. Clients will not benefit directly from any collateral supporting the underlying obligation and will not have the benefit of the remedies that would normally be available to a holder of such underlying obligation. In addition, in the event of the insolvency of the counterparty, Clients will be treated as general creditors of such counterparty and will not have any claim of title with respect to the underlying obligation. Consequently, Clients will be subject to the credit risk of the counterparty as well as that of the underlying obligor. As a result, concentrations of synthetic securities entered into with any one counterparty will subject Clients to an additional degree of risk with respect to defaults by such counterparty as well as by the underlying obligor.

***Market for Transactions and Financing.*** Identifying and structuring debt and equity investments involves competition among capital providers and market and transaction uncertainty. Nexus may not be able to identify a sufficient number of suitable investment opportunities to satisfy its Clients' investment objectives. On occasion, the investment opportunities may be too large to satisfy Clients' desired position sizes, and Nexus may not be able to locate counterparties to participate in such investment opportunities.

The financial markets have experienced substantial fluctuations in prices and liquidity for leveraged loans in recent years, but the leveraged loan market has shown signs of considerable improvement. Any further disruption in the credit and other financial markets may have substantial negative effects on general economic conditions, the operating performance and the availability of required capital for companies. These conditions may also result in increased default rates and credit downgrades, and affect the liquidity and pricing of the investments made by Nexus' Clients. When the spreads for credit investments tighten, it may be difficult to locate investments that are desirable for Nexus' Clients. This difficulty may be especially acute in respect of more liquid credit investments such as broadly syndicated loans.

***Risk of Private Debt and Equity Investments.*** Private investments involve a high degree of financial risk. Investments made by Nexus for its Clients may not be profitable and substantial losses may occur. Private

debt may not be repaid by the borrower, and Nexus may not be able to sell or otherwise liquidate Client investments at the optimal time, price or at all. Therefore, Nexus may not realize its Clients' rate of return objectives, and there may not be a return of capital to Clients. The debt in which Nexus invests may be subordinate to other creditors' claims, which may impair its overall value.

Nexus may also make equity investments in companies on behalf of its Clients. Equity investments may be more volatile than debt investments. They may be subject to significant risks, such as the risk of further dilution because of additional equity issuances, the risk that the equity investments will have limited minority protections, and the risk that the company in which Nexus' Clients hold equity interests may not create a liquidity event for such equity interests.

***Middle-Market Companies.*** Nexus' Clients will often invest in middle-market companies, which may involve a significant number of risks. For example, compared to larger companies, middle-market companies may have shorter operating histories, less predictable operating results and more reliance on a small number of products, managers, customers or individual company risks. In addition, middle-market companies often require additional financing to expand or maintain their competitive position and they may have a more difficult time acquiring additional capital than larger companies.

***Debt – Credit and Interest Rate Risks.*** Credit risk refers to the likelihood that a borrower will default in the payment of principal and/or interest. Financial strength and solvency of a borrower are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of a loan, and securities and other debt instruments that are rated by rating agencies may be downgraded. The value of a debt instrument may decline because of concerns about an obligor's ability to make principal or interest payments.

For certain Advisory Clients Nexus actively seeks to make investments in securitized products, which may be backed by collateral comprised of debt investments consisting of both investment grade securities, rated Baa or higher by Moody's or BBB or higher by S&P, and lower-rated investments (non-investment grade), rated lower than Baa by Moody's or lower than BBB by S&P (or, if not rated, of comparable quality), including but not limited to "leveraged loans" and "high-yield" bonds. These investments are regarded as "high-yield" or "junk" and are seen as predominately speculative with respect to the obligor's continuing ability to meet principal and interest payments.

Analysis of the creditworthiness of obligors/issuers/issues of lower-rated investments, loans or bonds, may be more complex than for obligors/issuers/issues of higher quality. The investments of Nexus might incur a loss due to losses of the collateral backing the investments.

Interest rate risk refers to the risk of market changes in interest rates. Interest rate changes may affect the value of debt. In general, rising interest rates will negatively impact the price of fixed rate debt, and falling interest rates will have a positive effect on price. Adjustable rate debt also reacts to interest rate changes in a similar manner, although generally to a lesser degree. Interest rate sensitivity is generally larger and less predictable in debt with uncertain payment or prepayment schedules.

***Debt –Subordinated Debt Risk.*** Nexus' Clients may invest in a variety of debt that captures particular layers of a borrower's credit structure, such as "last out" or "second lien" debt, or other subordinated investments that rank below other obligations of the borrower in right of payment. Subordinated investments are subject to greater risk of loss than senior obligations where there are adverse changes to the financial condition of the borrower or a decline in general economic conditions. Subordinated investments may expose a Client to particular risks in a distress situation, such as the risk that creditors

are not aligned. Holders of subordinated investments generally have less ability to affect the results of a distressed situation than holders of more senior investments.

***Debt – Illiquidity and Volatility.*** The debt that Nexus invests in for its Clients consists predominantly of loans and notes that are obligations of corporations, partnerships or other entities. This debt often has no, or only a limited, trading market. Although Nexus' Clients generally hold much of their debt until maturity, the investment in illiquid debt may restrict the ability to dispose of investments in a timely fashion, for a fair price, or at all. If an underlying issuer of debt experiences a credit event, this illiquidity may make it more difficult for Nexus' Clients to sell such debt, and Nexus may be required to pursue a workout or alternate way out of the position.

***Debt – Assignments and Participations.*** Nexus also may invest in loans either directly (e.g. by purchase from the borrower or by assignment) or indirectly (e.g., by way of participation interest). Holders of participation interests are subject to additional risks not applicable to a holder of a direct interest in a loan, such as the additional credit risk of the counterparty, the lack of voting rights and the lack of direct enforcement rights in connection with a loan default.

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

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

***Convertible Securities.*** A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a Client is called for redemption, the Client will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Client's ability to achieve its investment objective.

***Investments in Undervalued Assets.*** Clients may invest in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Clients may be forced to sell, at a substantial loss, assets which it believes are undervalued, if they are not in fact undervalued. In addition, Clients may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a

portion of the Client's funds would be committed to the assets purchased, thus possibly preventing the Client from investing in other opportunities.

***Derivative Instruments.*** Certain Clients may use various derivative instruments which may be volatile and speculative, and which may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. For example, a Client may enter into credit default swaps and may either buy protection or sell protection from losses caused by the occurrence of a negotiated default event with respect to an obligation of a corporate or sovereign borrower or obligor. The Client may enter into interest rate swaps on either an asset- or liability-based basis, depending on whether it is hedging its assets or its liabilities. The parties with which the Client enters into such derivatives are expected to be banks, broker dealers and other financial institutions.

***Co-Investments.*** A Client's General Partner, in its sole discretion, may provide co-investment opportunities or rights with respect thereto to one or more investors in the Client and/or other persons, in each case on terms determined by the Client's General Partner. Conflicts of interest may arise in the allocation of such co-investment opportunities. The allocation of co-investment opportunities, which may be made to one or more persons for any number of reasons as determined by the Client's General Partner in its sole discretion, may not be in the best interests of the Client or any individual investor in such Client. In exercising its sole discretion in connection with such co-investment opportunities, the General Partner may consider some or all of a wide range of factors, which may include the likelihood that an investor may invest in a future fund sponsored by the General Partner or its affiliates. A Client may co-invest with third parties through partnerships, joint ventures or other entities or arrangements. Such investments may involve risks not present in investments where a third-party is not involved, including the possibility that a third-party co-venturer or partner may at any time have economic or business interests or goals that are inconsistent with those of the Client, or may be in a position to take action contrary to the investment objectives of the Client. In addition, a Client may in certain circumstances be liable for actions of its third-party co-venturer or partner.

***Leverage Risk.*** Nexus may also invest Client assets in a manner that would subject Clients to the financial risk of leverage. Portfolio investments financed with leverage may have increased exposure to risks including adverse fluctuations in interest rates, downturns in the economy and the inability to refinance debt as it matures. While leverage presents opportunities for increasing Clients' total return, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of a Client's investment would be magnified to the extent the Client's account is leveraged. This may result in a substantial loss to Client accounts, which would be greater than if leverage had not been employed in managing the account. In addition, the investment objectives of Nexus' Clients are dependent on the continued availability of leverage at attractive relative interest rates. If such Clients are unable to obtain such leverage or if the interest rates of such leverage are not attractive, such Clients could experience diminished returns.

***Use of Leverage by Portfolio Companies.*** It is anticipated that a substantial portion of Nexus' Clients' assets will be lent to, or invested in, companies that have leverage. Factors such as rising interest rates, downturns in the economy or deterioration in the condition of a portfolio company or its industry could put at risk a company's ability to meet its debt service obligations (including investments by the Client).

The portfolio companies in which Nexus will invest its Client in may be highly leveraged, thereby increasing the degree of credit risk inherent in each investment. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to finance future operations and capital needs or to pay principal and interest on the Client's investments when

due. The leveraged capital structure of portfolio companies will increase the exposure of the Client's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates.

***Contingent Liabilities Upon Disposition.*** In connection with the disposition of an investment, a Client and its General Partner may be required to make (and/or be responsible for another person's or entity's breach of) representations and warranties, e.g., about the business and financial affairs of the applicable portfolio company, the condition of its assets and the extent of its liabilities, in each case generally in the nature of representations and warranties typically made in connection with the sale of similar businesses, and may be responsible for the content of disclosure documents under applicable securities laws. They may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents are inaccurate. These arrangements may result in contingent liabilities, which would be borne by the Client and, ultimately, its investors.

***Loans in Lieu of Distributions.*** Pursuant to a Client's governing documents, certain distributions to the Client's General Partner may be deferred to the extent the amount distributable exceeds the General Partner's tax basis in the Client. In such case, the deferred distribution amount may be loaned by the Client to the General Partner. Any interest accruing with respect to such a loan will be allocated and distributed solely to the General Partner.

***Valuation.*** Generally, there will be no readily available market for a substantial number of investments held in the Client's portfolios, and hence the Client's investments will be difficult to value. Although Nexus will monitor the performance of each Client investment, it will primarily be the responsibility of each portfolio company's management team to operate the portfolio company on a day-to-day basis.

Nexus may, in its sole discretion, engage the services of an independent valuation agent to provide valuation services to Nexus' Clients. Such a valuation agent would be responsible for providing advisory opinions and analysis with respect to the value of the Client's investments for Nexus to use for purposes of determining the its Client's net asset value.

***Public Company Holdings.*** A Client's investment portfolio may contain securities and debt issued by publicly held companies. Such investments may subject the Client to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Client to dispose of such securities and debt at certain times, increased likelihood of shareholder litigation and insider trading allegations against such companies' executives and board members, including the Principals, and increased costs associated with each of the aforementioned risks.

***Unfunded Pension Liabilities of Portfolio Companies.*** Recent court decisions have found that, where an investment fund owns 80% or more (or under certain circumstances less than 80%) of a portfolio company, such fund (and any other 80%-owned portfolio companies of such fund) might be found liable for certain pension liabilities of such a portfolio company to the extent the portfolio company is unable to satisfy such liabilities. Although Nexus intends to manage its Clients' investments to minimize any such exposure, Nexus may, from time to time, invest in a portfolio company that has unfunded pension fund liabilities, including structuring the investment in a manner where a Client may own an 80% or greater interest in such a portfolio company. If a Client (or other 80%-owned portfolio companies of the Funds) were deemed to be liable for such pension liabilities, this could have a material adverse effect on the operations of the Client and the companies in which the Client invests. This discussion is based on current court decisions, statute



and regulations regarding control group liability under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) as in effect as of the date of this Brochure, which may change in the future as the case law and guidance develops.

**General Economic and Market Conditions.** The success of Nexus’ Clients is affected by general economic and market conditions, including, among others, interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws and trade barriers. These factors may affect the level and volatility of securities prices and the liquidity of investments. Volatility or illiquidity could impair profitability or result in losses. These factors also may affect the availability or cost of leverage, which may result in lower returns.

**Global Investments.** Nexus may invest Client assets in the debt, loans or other investments in issuers located outside the United States. In addition to business uncertainties, political, social and economic uncertainty affecting a country or region may affect these investments. Many financial markets are not as developed or as efficient as those in the United States. As a result, the liquidity for these investments may be lower and price volatility may be higher compared with investments in U.S. issuers. The legal and regulatory environment may also be different, particularly as to bankruptcy and reorganization. Financial accounting standards and practices may differ, and there may be less publicly available information for such companies. These investments may also result in losses because of exchange rate fluctuations.

**Distressed Securities Risks.** Nexus’ Clients may invest in “distressed” securities, claims and obligations of domestic and foreign entities that are experiencing significant financial or business difficulties. Among the risks inherent in investments in entities experiencing significant financial or business difficulties is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. State and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court’s discretionary power to disallow, subordinate or disenfranchise particular claims also may adversely affect such investments. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such instruments may be greater than normally expected. In trading distressed securities, litigation is sometimes required. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses. The market for distressed securities and instruments is generally thinner and less active than other markets, which can adversely affect the prices at which distressed securities can be sold.

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

**Risks Associated with Bankruptcy Cases.** A Client’s investment activities, particularly involving companies in distressed situations, may result in it becoming involved as a creditor in bankruptcy cases. In addition, a Client may purchase securities or assets of, or claims against, companies in bankruptcy. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of the Client. Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by

creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Client; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart, and the company may not be able to reorganize and may be required to liquidate assets. The debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during the reorganization and may be adversely affected by an erosion of the issuer's intrinsic values. Such investments can result in a total loss of principal. U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purposes of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Client's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority over the claims of certain creditors (for example, claims for taxes) may be quite high. There are instances where creditors and equity holders lose their ranking and priority such as when they take over management and functional operating control of a debtor. In those cases where the Client, by virtue of such action, is found to exercise "domination and control" of a debtor, the Client may lose its priority if the debtor can demonstrate that it was adversely impacted or other creditors or equity holders were harmed by the Client. A Client may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

**Junior Debt Securities.** Nexus' Clients may invest in junior debt securities. Although certain junior debt securities are typically senior to common stock or other equity securities, the equity and debt securities in which Client's will invest may be subordinated to substantial amounts of senior debt, all or a significant portion of which may be secured. Such subordinated investments may be characterized by greater credit risks than those associated with the senior obligations of the same issuer. These subordinated securities may not be protected by all of the financial covenants, such as limitations upon additional indebtedness, typically protecting such senior debt. Holders of junior debt generally are not entitled to receive full payments in bankruptcy or liquidation until senior creditors are paid in full. Holders of equity are not entitled to payments until all creditors are paid in full. In addition, the remedies available to holders of junior debt are normally limited by restrictions benefiting senior creditors. In the event any portfolio company cannot generate adequate cash flow to meet senior debt service, the Client may suffer a partial or total loss of capital invested.

**Other Equity and Non-Distressed Investments.** A Client may make investments other than in distressed securities. Such investments may include, without limitation, special situation equities, post-reorganization securities, securities of non-U.S. issuers, emerging market debt securities, private debt or equity securities, publicly traded equity securities, convertible securities, warrants, futures, options, real estate securities and risk arbitrage, which involve special risks. Special situation equities are event driven, and may be subject to greater volatility than other equity securities. Investments in the non-U.S. markets and issuers may be less liquid and subject to greater price volatility than investments in U.S. markets and issuers. The market price of a publicly traded equity security can be adversely affected by a wide variety of broad macroeconomic and market factors unrelated to the financial condition and prospects of the issuer. Dividends and interest paid by foreign issuers may be subject to withholding and other foreign taxes. In addition, there may be higher brokerage, custody and other transactional costs and less governmental regulation of the securities markets (including less publicly available information about foreign issuers and a lack of uniform accounting standards), as well as risks associated with economic and political developments, different legal systems and currency conversions. Emerging market debt securities are not

required to meet any rating standards and may not be rated for creditworthiness by any internationally recognized credit rating organization. Emerging market debt securities rated in the lower and lowest rating categories of internationally recognized credit rating organizations and unrated securities of comparable quality are predominantly speculative with respect to the capacity to pay interest and repay principal in accordance with their terms and generally involve a greater risk of default and volatility in price than securities in higher rating categories. Futures and options involve risks of pricing differences between the market value of the underlying securities and the futures and options and a possible lack of a liquid secondary market for a futures or options contract and the resulting inability to close a futures or options position, which could adversely affect the Client. Real estate securities may be subject to the risks associated with direct ownership of real estate, including market, credit and regulatory risks. Risk arbitrage is subject to high risk because of the uncertainty of the outcome of an arbitrage situation, which may depend on the outcome of litigation, changes in the terms or a transaction or regulatory developments or actions. If Nexus' evaluation of an anticipated outcome of an arbitrage situation should prove incorrect, the Client could experience substantial losses as a result of a decline in the market value of securities in which the Client holds a long position or an increase in the value of securities in which the Client holds a short position. Furthermore, the Client may hold significant equity investments in post-reorganization portfolio companies, which pose a different risk/reward and risk mitigation profiles than do distressed debt securities.

***“Blocking Positions”.*** In connection with Nexus' distressed investment strategy, a Client may acquire plan of reorganization “blocking positions” in securities of portfolio companies. This strategy entails significant risks. If Nexus' evaluation of the anticipated outcome of such a blocking position or any investment situation should prove incorrect, the Client could experience substantial losses.

Ability to Source and Purchase Loans on Advantageous Terms; Competition and Supply. A Client's success will depend, in part, on the ability of Nexus or its affiliates to source and purchase loans on advantageous terms. In sourcing and purchasing loans, Nexus or its affiliates compete with a broad spectrum of lenders, many of which have substantially greater financial resources and are more well-known than Nexus. Increased competition for, or a diminishment in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

***Non-Controlling Investments.*** Generally, Clients will hold non-controlling interests in portfolio companies and, therefore, will have a limited ability to influence management of its portfolio companies to protect the Client's position therein. Although Nexus will endeavor to negotiate negative covenants and other contractual restrictions for each portfolio company, it will primarily be the responsibility of portfolio company management to operate each portfolio company on a day-to-day basis.

***Below-Par Securities.*** Nexus' Clients may invest in securities that are valued at, or trading below, their par value-this includes securities, private claims and obligations of domestic and foreign entities that are experiencing significant financial or business difficulties. Below-par securities may result in significant returns to the Client, but also involve a substantial degree of risk. Client's may lose a substantial portion or all of its investment in a distressed environment or may be required to accept cash or securities with a value less than the Client's investment. Among the risks inherent in investments in entities experiencing significant financial or business difficulties is the fact that it may frequently be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by state and Federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the Bankruptcy Court's discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such instruments may be

greater than normally expected. In trading distressed securities, litigation sometimes arises. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses.

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

**Structured Finance Securities.** Clients may from time to time, as part of its opportunistic investment activities, invest in structured finance securities such as collateralized loan obligations or products related to such obligations, or make loans to origination entities that are investing in collateralized loan obligation securities. Structured finance securities may present risks similar to those of the other types of investments in which Clients may invest and, in fact, such risks may be of greater significance in the case of structured finance securities. Moreover, investing in structured finance securities may entail a variety of unique risks. Among other risks, structured finance securities may be subject to prepayment risk. In addition, the performance of a structured finance security will be affected by a variety of factors, including its priority in the capital structure of the issuer thereof, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.

**Dilution.** A Client's investors admitted or that increase their respective commitments to such Client at subsequent closings generally will participate in then-existing investments of the Client, thereby diluting the interest of existing Client investors in such investments. Although any such new Client investors will be required to contribute its pro rata share of previously made capital contributions, there can be no assurance that this contribution will reflect the fair value of the Client's existing investments at the time of such contributions.

**Board Participation and Bankruptcy Creditors' Committees.** Nexus anticipates that a Client's investment program will enable Nexus to place its representatives on bankruptcy creditors' committees and/or boards of certain companies in which the Client has invested. While such representation may enable Nexus to enhance the value of its Clients' investments, it may also prevent Clients from freely disposing of investments and may subject Clients to additional liability. Generally, a Client will indemnify Nexus, the General Partner, or any other person designated by the General Partner or Nexus for claims arising from such board and/or bankruptcy creditors' committee representation. Nexus will attempt to balance the advantages and disadvantages of such representation when deciding whether and how to exercise a Client's rights with respect to such companies, but the exercise of such rights could produce adverse consequences in particular situations. Such representation may also adversely impact the ability of a Client to acquire additional investments in such companies.

**Director Liability.** In certain circumstances a Client may receive the right to appoint a representative to the board of directors (or similar governing body) of the companies in which it invests. Serving on the board of directors (or similar governing body) of a portfolio company exposes the Client's representatives, and ultimately the Client, to potential liability. Not all portfolio companies may obtain insurance with respect to

such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability. In addition, involvement in litigation can be time consuming for such persons and can divert the attention of such persons from the Client's investment activities.

**Brokers and Custodians.** Client's assets may be held in accounts maintained for the Client by certain banks, broker-dealers and other financial institutions. These financial institutions are subject to various laws and regulations in various jurisdictions, some of which are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and regulations and their application to the Client's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved, and the range of possible factual scenarios involving the insolvency of one of these financial institutions, their agents or affiliates, it is impossible to generalize about the effect of their insolvencies on the Client and its assets. Investors should assume that the insolvency of any one of the Client's service providers could result in the loss of all or a substantial portion of the Client's assets held by or through such entity.

**Counterparty Risk.** Certain instruments in which Nexus' Clients may invest may, in certain circumstances, bear credit risk with regard to other parties involved, as well as risk of settlement default. Moreover, transactions directly between two counterparties (e.g., off exchange) may not be afforded certain protections, such as settlement, segregation and minimum capital requirements applicable to intermediaries, and therefore expose the parties to the risk of counterparty default.

**Tax Liability Considerations.** Clients may take positions with respect to certain tax issues that depend on legal and other interpretive conclusions. Should any such positions be successfully challenged by the U.S. Internal Revenue Service ("IRS"), an investor in a Client might be found to have a different tax liability for that year than that reported on its federal income tax return. In addition, an audit of a Client may result in an audit of the returns of some or all of the investors in such Client, which examination could result in adjustments to the tax consequences initially reported by the Client and affect items not related to an investor's investment in the Client. If such adjustments result in an increase in an investor's federal income tax liability for any year, such investor may also be liable for interest and penalties with respect to the amount of underpayment. The legal and accounting costs incurred in connection with any audit of a Client's tax return will be borne by the Client. The cost of any audit of an investor's tax return will be borne solely by the investor. The taxation of partnerships and partners is complex.

**Tax Information Exchange Regimes; FATCA Withholding Tax on Certain Non-U.S. Entities.** The United States, pursuant to the Foreign Account Tax Compliance Act ("FATCA"), has entered into numerous intergovernmental agreements with various jurisdictions concerning the exchange of information as a means to combat tax evasion. The United Kingdom has entered into similar agreements with various jurisdictions. Other countries are also considering such agreements, and the Organization for Economic Co-Operation and Development ("OECD") has been actively working towards the exchange of information on a global scale and has published a global Common Reporting Standard for the exchange of information pursuant to which many countries have now signed multilateral agreements. An investor's failure to provide such information may result in expulsion from one or more alternative investment vehicles. One or more of these information exchange regimes are likely to apply to the Clients and/or alternative investment vehicles, and may require Nexus to collect and share with applicable taxing authorities information concerning investors (including identifying information and amounts of certain income allocable or distributable to them). In addition, FATCA generally imposes a withholding tax of 30% on a non-U.S. entity's share of most payments attributable to investments in the United States, including dividends, interest, and, beginning on January 1, 2019, gross proceeds of a disposition of stock, unless an exception applies. A Client may be required to withhold such taxes from certain non-U.S. investors, unless an exception applies.

***New Rules Regarding U.S. Federal Income Tax Liability Resulting from IRS Audits.*** For taxable years of Clients beginning on or after January 1, 2018 (or earlier, if the Client so elects), U.S. federal income taxes arising from an IRS audit will be paid by the Client absent an election to the contrary. In addition, a newly designated “partnership representative” will have the power to act on behalf of the Clients and its investors in all IRS audits and other proceedings involving the Client’s U.S. federal income, loss, deductions, and credits. These new rules may be less favorable than current partnership audit rules for certain investors in certain cases.

***Risk of Taxes Without Distributions.*** Potential timing differences between income recognition for tax purposes and actual cash distributions to investors in a Client may cause investors to incur income tax liabilities in excess of actual cash distributions in certain tax years.

***Delayed Schedule K-1s.*** A Client may not be able to provide final Schedule K-1s to their investors for any given fiscal year until after April 15 of the following year. Nexus will endeavor to provide investors with final Schedule K-1s or with estimates of the taxable income or loss allocated to their investment in a Client on or before such date, but final Schedule K-1s may not be available until the Client has received tax-reporting information from its portfolio companies necessary to prepare final Schedule K-1s. A Client’s investor may be required to obtain extensions of the filing dates for their U.S. federal, state and local income tax returns. Each prospective investor should consult with its own adviser as to the advisability and tax consequences of an investment in a Client.

***Cyber-Security Risk.*** Investment advisers, including Nexus, increasingly rely on information and technology systems to conduct their business. Such systems might in some circumstances be subject to cybersecurity incidents or similar events that could potentially result in damage or interruption to these systems, unauthorized access to sensitive transactional and personal information, intentional misappropriation, corruption or destruction of data, or operational disruption. Nexus maintains an information technology security policy and has implemented certain technical and physical safeguards intended to protect the integrity of its information and technology systems. Nonetheless, despite reasonable precautions, cybersecurity incidents could potentially occur, and might in some circumstances result in the failure to maintain the security, confidentiality or privacy of sensitive data. Cybersecurity incidents experienced by third party vendors or service providers may indirectly affect Clients. Cybersecurity risks can disrupt the ability to engage in transactional business, cause direct financial loss and affect the value of assets in which Clients invest, harm Nexus’ reputation, lead to violations of applicable laws, result in ongoing prevention, risk management and compliance costs, and otherwise affect business and financial performance.

**THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE EXPLANATION OF ALL OF THE INVESTMENT RISKS NEXUS AND ITS CLIENTS ARE EXPOSED TO AS A PART OF NEXUS’ BUSINESS.**

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## **Item 9 Disciplinary Information**

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This Item requests information relating to legal and disciplinary events in which Nexus or any supervised persons, as defined by the Advisers Act, have been involved that are material to Client's or prospective Client's evaluations of Nexus' advisory business or management. There are no reportable material legal or disciplinary events related to Nexus or any of its supervised persons. In the ordinary course of Nexus' business, Nexus, its affiliates and employees have not in the past been subject to any formal or informal regulatory inquiries, subpoenas, investigations, legal or regulatory proceedings involving the SEC, or any other regulatory authorities, including private parties and self-regulatory organizations (SRO).

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

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### **Affiliated Broker-Dealers**

Nexus and its management persons are not registered, nor has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Nexus has no existing or pending affiliations with a broker-dealer or a registered representative of a broker-dealer.

### **Affiliated CPO and/or CTA**

Nexus and its management persons are not registered, nor has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities. Nexus has no existing or pending affiliations with a futures commission merchant, commodity pool operator, or commodity trading advisor.

However, Nexus and certain related entities rely on an exemption from registration under CFTC Rule 4.13(a)(3) with the Commodity Futures Trading Commission ("CFTC") and therefore Nexus is exempt from registration as a commodity pool operator ("CPO").

### **Affiliated General Partners**

As stated in Item 4 of this Brochure, Nexus does not act as a general partner for any of its Clients. Instead, certain affiliates of Nexus, serve as a general partner to one or more of Nexus' Clients and are regularly engaged in the business of sponsoring such Clients. In connection with such services the General Partner of each respective Client may receive Performance-Based Fee (e.g., carried interest) described above in Item 5 of this Brochure. The specific payment terms and other conditions of the Performance-Based Fees available to a General Partner are set forth in the applicable Client's governing documents, side letters and/or fee agreements. Through common control, Nexus is affiliated with each Client's respective General Partner. Additionally, as described above in Item 6 of this Brochure, the receipt of Performance-Based Fees from Clients may create an incentive for Nexus or the General Partners to cause such Clients to make riskier or more speculative investments than they would otherwise make in the absence of Performance-Based Fees. Performance-Based Fees also may incentivize Nexus or the General Partners to overvalue assets in order to increase the amount of its Performance-Based Fees. Moreover, the performance on which Performance-Based Fees are calculated may, in certain circumstances, include unrealized appreciation and depreciation of investments that may not ultimately be realized and as a result may create an incentive for Nexus or the General Partners to time investments, and the realization of investments, so as to maximize Performance-Based Fees rather than the returns of Clients. Lastly, each Client's respective General Partner may be required to return excess amounts of Performance-Based Fees as a "clawback," pursuant to the Client's applicable governing documents. This clawback obligation may create an incentive for a General Partner to defer disposition of one or more investments or delay the liquidation of a Client if the disposition and/or liquidation would result in a realized loss to the Client or would otherwise result in a clawback situation for the General Partner.

Nexus addresses these conflicts of interest by providing in its Code of Ethics that all supervised persons have a duty to act in the best interests of each Client, providing training to supervised persons with respect to conflicts of interest and how such conflicts are resolved under Nexus' written policies and procedures.



Set forth below are Nexus' affiliated General Partners and the corresponding Clients:

General Partners	Client(s)
Nexus Special Situations GP II, L.P.	Nexus Special Situations II, L.P. Nexus Special Situations II (Cayman), L.P.
Gateway GP PCO, L.P.	Gateway PCO Master, L.P. Gateway PCO, L.P.
Encore CPG Holdings GP, LLC	Encore CPG Holdings, LP
Nexus Partners GP, LP	Twin Lakes APV LP
Database Coinvest GP, LLC	Database Coinvest, LP
Vine Mercury GP, LLC	Vine Mercury Holdings LP
Wonder Coinvest GP, LLC	Wonder Coinvest, LP

### **Affiliated Loan Origination and/or Servicing Businesses**

Affiliates of Nexus and certain Nexus Clients and/or their portfolio companies may be engaged in the loan origination and/or servicing businesses. In connection with their lending activities, such loan origination and/or servicing businesses may receive certain fees, including, director's fees, commitment fees, investment banking fees, financial consulting fees, break-up fees, termination fees, closing fees, collateral monitoring fees, debt placement fees and other similar fees received as part of such loan origination and/or servicing businesses. Such fees may be charged on a cost reimbursement or on a cost-plus basis. The Client or the issuers of financial instruments held by the Client may acquire loans originated, structured, arranged and/or placed and/or arranged by such affiliated loan origination and/or servicing businesses and in respect of which such businesses receive fees. To the extent set forth in the governing documents of a Client, some or all of these fees will not be applied to reduce Management Fees or other fees payable by the Client or any of its investments or otherwise directly or indirectly benefit the Client or any of its investors. Such fees will otherwise be borne by the Client or by the issuers of financial instruments held by the Client. See *Item 5 – Fees and Compensation* of this Brochure for more information regarding Transaction Fees and Management Fee Offsets.

### **Selection of Service Providers**

Except as may otherwise be provided under the terms of a Client's governing documents, Nexus or one or more of its affiliates will generally select Clients' service providers and will determine the compensation of such providers without review by or the consent of an advisory board, the investors or an independent party. Clients, regardless of the relationship to Nexus, its affiliates or the person performing the services, bear the fees, costs and expenses related to such services. This may create an incentive for Nexus or an applicable affiliate to select an affiliate or to select service providers based on the potential benefit to Nexus, rather than to Clients. For example, Nexus may select service providers that use its or its affiliates' premises, for which Nexus or one of its affiliates does not currently, but may in the future, receive overhead, rent or other fees, costs and expenses in connection with such on-site arrangement.

Nexus or one or more of its affiliates may engage the same service provider to provide services to a Client that also provides services to Nexus or any such affiliate, which creates a potential conflict of interest to the extent the interests of such parties are not aligned. For example, a law firm may at the same time act as legal counsel to a Client, its General Partner or similar person, Nexus or other affiliates of Nexus.

Nexus and its affiliates address these conflicts of interest by using reasonable diligence to ascertain whether each service provider (including law firms) provides its service on a “best execution” basis, taking into account factors such as expertise, operational and regulatory controls, availability and quality of service and the competitiveness of compensation rates in comparison with other service providers satisfying Nexus’ or its affiliates’ service provider selection criteria. In addition, in the event such service providers are affiliates of Nexus (as opposed to third parties), the engagement of such providers must typically comply with the conditions applicable to affiliate transactions, if any, set forth in the Clients’ governing documents.

#### **Relationship or Arrangements with Affiliates and/or Related Persons**

Nexus does not select or recommend non-affiliated investment advisers to Clients or prospective Clients. There are inherent conflicts of interest when a related person provides services to an investment adviser and its clients, in that such arrangements may not be conducted at “arm’s length” and that Nexus may have an incentive to favor a related person over an independent third party.

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## Item 11 Code of Ethics

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Nexus maintains a policy of strict compliance with the highest standards of ethical business conduct and the provisions of applicable federal securities laws, including rules and regulations promulgated by the SEC, and has adopted policies and procedures described in its Code of Ethics. The Code of Ethics has been adopted by Nexus in compliance Section 204A of the Advisers Act and Rule 204A-1 thereunder. The Code of Ethics applies to each employee of Nexus and any other “access person” as defined under the Advisers Act. It is designed to ensure compliance with legal requirements of Nexus’ standard of business conduct.

A complete copy of Nexus’ Code of Ethics is available to any Client or prospective Client upon request.

The Code of Ethics is based upon the premise that all Nexus personnel have a fiduciary responsibility to render professional, continuous and unbiased investment advisory services. The Code of Ethics requires all personnel to: (i) comply with all applicable laws and regulations; (ii) observe all fiduciary duties and put Client interests ahead of those of Nexus; (iii) observe Nexus’ personal trading policies so as to avoid “front-running” and other conflicts of interests between Nexus and its Clients; and (iv) ensure that all personnel have read the Code of Ethics, agreed to adhere to the Code of Ethics, and are aware that a record of all violations of the Code of Ethics will be maintained by Nexus’ Chief Compliance Officer, and that personnel who violate the Code of Ethics are subject to sanctions by Nexus, up to and including termination.

**Standards of Conduct:** Nexus and its access persons are expected to comply with all applicable federal and state laws and regulations. Access persons are expected to adhere to the highest standards of ethical conduct and maintain confidentiality of all information obtained in the course of their employment and bring any risk issues, violations, or potential violations to the attention of the Chief Compliance Officer. Access persons are expected to deal with Clients fairly and disclose any activity that may create an actual or potential conflict of interest between them and Nexus or Client.

**Ethical Business Practices:** Falsification or alteration of records or reports, also known as a prohibited financial practice, or knowingly approving such conduct is prohibited. Payments to government officials or government employees are prohibited except for political contributions approved by Nexus’ Chief Compliance Officer or his designee. Nexus seeks to outperform its competition fairly and honestly and seeks competitive advantages through superior performance not illegal or unethical dealings. Access persons are strictly prohibited from (i) participating in online blogging and communication with the media, unless approved by the Principals and/or the Chief Compliance Officer, and (ii) spreading of false rumors pertaining to any publicly traded company.

**Confidentiality:** Employees must maintain the confidentiality of Nexus’ proprietary and confidential information, and must not disclose that information unless the necessary approval is obtained. Nexus has a particular duty and responsibility, as investment adviser, to safeguard Client information. Information concerning the identity and transactions of investors is confidential, and such information will only be disclosed to those employees and outside parties who may need to know it in order to fulfill their responsibilities.

**Gift and Entertainment Policy:** Access persons shall not, directly or indirectly, take, accept or receive gifts or other consideration in merchandise, services or otherwise of more than nominal value from any person, firm, corporation, association or other entity other than such person’s employer that does business, or proposes to do business, with the Nexus or any of its affiliates without approval from the Chief Compliance Officer.

## **Personal Trading**

**Personal Trading Policy:** Access persons must obtain approval from the Chief Compliance Officer or designee prior to executing a transaction in any reportable security, in which the Employee has, or acquires, any direct or indirect beneficial ownership. Access persons must also obtain approval from the Chief Compliance Officer or his designee before directly or indirectly acquiring beneficial ownership in any securities in an initial public offering or in a limited offering (including, private placements).

No access person shall recommend any transaction in any covered securities by Clients without having disclosed to the Chief Compliance Officer his or her interest, if any, in such covered securities or the issuer thereof, including: (i) the access person's beneficial ownership of any covered securities of such issuer; (ii) any contemplated transaction by the access person in such covered securities; (iii) any position the access person has with such issuer; and (iv) any present or proposed business relationship between such issuer and the access person (or a party in which the access person has a significant interest).

**Prohibition against Insider Trading:** Nexus forbids any access person from trading, either personally or on behalf of others, including Clients advised by Nexus, on material non-public information or communicating material non-public information to others in violation of the law or duty owed to another party. This conduct is frequently referred to as "insider trading". The concepts of material non-public information, penalties for insider trading, and processes for identifying insider trading are addressed in detail in the Compliance Manual and Code of Ethics.

**Reporting Requirements:** In compliance with SEC rules, access persons are required to disclose all of their personal brokerage accounts and holdings within 10 days of initial employment with Nexus, within 10 days after the end of each calendar quarter of opening a new account, and annually thereafter. Additionally, the last day of the month following each quarter-end, all access persons must report all transactions in reportable securities over which the access person had any direct or indirect beneficial ownership. Access persons are also required annually to affirm all reportable transactions from the prior year.

## **Privacy and Confidentiality**

**Privacy Policy:** Nexus has adopted a privacy policy that explains the manner, in which Nexus collects, utilizes and maintains nonpublic personal information about Clients and Clients' investors. Nexus recognizes and respects the privacy concerns of potential, current and former Clients and Clients' investors. Nexus is committed to safeguarding this information. As a member of the financial services industry, Nexus will provide this Privacy Policy for informational purposes to Clients, Clients' investors and employees and will distribute and update it as required by law. A complete copy of Nexus' Privacy Policy is available to any Client or prospective Client upon request.

**Collection of Information and Disclosure of Nonpublic Personal Information:** To provide investors with effective service, Nexus may collect several types of nonpublic personal information about investors, including: (i) information from forms that investors may fill out, such as subscription forms, questionnaires and other information provided by investors in writing, in person, by telephone, electronically or by any other means. This information includes name, address, nationality, tax identification number, and financial and investment qualifications; (ii) information investors may give orally; (iii) information about transactions within Nexus, including account balances, investments and withdrawals; (iv) information about the amount investors have invested, such as initial investment and any additions to and withdrawals from an investment in the Clients; and (v) information about any bank accounts investors may use for transfers to or from accounts (if applicable).

**Disclosure of Nonpublic Personal Information:** Nexus does not sell or rent Client investor information. Nexus uses this information to conduct business with its Clients: to develop or enhance its products and services; to understand the financial needs of its Clients so that Nexus can provide such Clients with quality products and superior service; and to protect and administer its Clients' records, accounts and funds. Nexus does not disclose nonpublic personal information about its investors to nonaffiliated third parties, except as permitted or required by law. For example, Nexus may share nonpublic personal information in the following situations: (i) to service providers in connection with the administration and servicing of Nexus and its Clients; this may include attorneys, accountants, auditors and other professionals. Nexus may also share information in connection with the servicing or processing of investor transactions; (ii) to affiliated companies in order to provide investors with ongoing personal advice and assistance with respect to the products and services investors have purchased through Nexus and to introduce investors to other products and services that may be of value to such investors; (iii) to respond to a subpoena or court order, judicial process or regulatory authorities; (iv) to protect against fraud, unauthorized transactions (such as money laundering), claims or other liabilities; and (v) upon consent of an investor to release such information, including authorization to disclose such information to persons acting in a fiduciary or representative capacity on behalf of the investor.

**Protection of Client Information:** Nexus' policy is to require that all employees, financial professionals and companies providing services on its behalf keep Client and investor information confidential. Nexus maintains safeguards that comply with federal standards to protect Client and investor information. Nexus restricts access to the personal and account information of Clients and investors to those employees who need to know that information in the course of their job responsibilities. Third-parties with whom Nexus shares Client or investor information must agree to follow appropriate standards of security and confidentiality. Nexus' privacy policy applies to both current and former Clients and investors. Nexus may disclose nonpublic personal information about a former Client to the same extent as for a current Client.

**Changes to Privacy Policy:** Nexus may make changes to its privacy policy in the future. Nexus will not make any change affecting any Client without first sending to that Client a revised privacy policy describing the change.

### **Potential Conflicts of Interest**

Nexus, its affiliates and their respective principals, officers, directors, partners, shareholders, members, managers, employees, agents or other representatives and their respective funds and investment accounts (collectively, the "Related Parties") engage in a broad range of activities, including activities for their own account and for the accounts of Clients. This section describes various potential conflicts that may arise in respect of the Related Parties, as well as how Nexus address such conflicts of interest. The discussion below does not describe all conflicts that may arise.

Any of the following potential conflicts of interest will be discussed and resolved on a case by case basis. Nexus' determination as to which factors are relevant, and the resolution of such conflicts, will be made using Nexus' best judgment, but in Nexus' sole discretion. In resolving conflicts, Nexus will take into consideration the interests of the relevant Client or Clients, the circumstances giving rise to the conflict and applicable laws. Certain procedures for resolving specific conflicts of interest are set forth below.

**Multiple Clients:** Certain inherent conflicts of interest arise from the fact that: (i) Nexus provides investment management services to more than one Client; and (ii) Clients may have one or more overlapping investment objectives. In addition, the investment strategies employed by Nexus for current and future Clients could conflict with the strategies employed by Nexus for current and future Clients, and may affect the prices and availability of the securities and other assets in which such Clients invest. Nexus may also

advise Clients with conflicting investment objectives or strategies. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more Clients.

Nexus addresses these conflicts of interest by providing in its Code of Ethics that all supervised persons have a duty to act in the best interests of each Client, providing training to supervised persons with respect to conflicts of interest and how such conflicts are resolved under Nexus' written policies and procedures, and through the implementation of allocation of investment opportunities policies and procedures.

**Allocation of Investment Opportunities:** As stated herein above, Nexus acts as investment adviser to more than one Client that may have similar investment objectives and pursue similar strategies. Certain investments identified by Nexus may be appropriate for multiple Clients. When it is determined by Nexus that it would be appropriate for more than one Client to participate in an investment opportunity, Nexus will generally allocate such investment opportunity among the Clients in proportion to the relative amounts of capital available for new investments, taking into account such other factors as it may, in its sole discretion determine appropriate, including investment objectives, legal or regulatory restrictions, current holdings, availability of capital for investment, the size of investments generally, risk-return considerations, relative exposure to market trends, targeted leverage level, targeted asset mix, target investment return, diversification requirements, strategic objectives, specific liquidity requirements, as well as any tax consequences, limitations and restrictions on a Client's portfolio that are imposed by such Client's governing documents or other considerations that Nexus deems necessary or appropriate in light of the circumstances at such time. In addition, if it is fair and reasonable that certain Clients are fully filled of their appetite before others (e.g., for tax considerations, to avoid *de minimis* partial allocations, to cover or close out an existing position to mitigate risk or losses, etc.), then these Clients may receive full or disproportionate allocations, with the remaining amounts allocated in accordance with normal procedures among the other participating Clients. One or more of the foregoing considerations in this paragraph may (and are often expected to) result in allocations among accounts other than on a *pari passu* basis. Accordingly, particular investment may be bought or sold for only one Client or in different amounts and at different times for more than one but less than all Clients, even though it could have been bought or sold for other Clients at the same time. Likewise, a particular investment may be bought for one or more Clients when one or more other Clients are selling the investment. In addition, purchases or sales of the same investment may be made for two or more Clients on the same date. There can be no assurance that a Client will not receive less (or more) of a certain investment than it would otherwise receive if Nexus did not have a conflict of interest among Clients.

In effecting transactions, it is not always possible, or consistent with the investment objectives of Nexus' various Clients, to take or liquidate the same investment positions at the same time or at the same prices. Certain investment restrictions may limit Nexus' ability to act for a Client and may reduce performance. Regulatory and legal restrictions (including restrictions on aggregated positions) may also restrict the investment activities of Nexus and result in reduced performance.

Nexus seek to manage and/or mitigate these potential conflicts of interest described by following procedures with respect to the allocation of investment opportunities for Clients, including the allocation of limited investment opportunities. Nexus' allocation policy is based on a fundamental desire to treat each Client fairly over time.

**Capital Structure Conflicts:** Nexus and its affiliates have ongoing relationships with many companies whose securities have been acquired by, or are being considered for investment by, Clients. From time to time, Nexus may acquire securities or other financial instruments of an issuer for one Client which are senior or junior securities or financial instruments of the same issuer that are held by, or acquired for,

another Client (e.g., one Client may acquire senior debt while another Client may acquire subordinated debt). Conflicts of interest may arise in such circumstances. For example, in the event such issuer enters bankruptcy, the Client holding securities which are senior in bankruptcy preference may have the right to aggressively pursue the issuer's assets to fully satisfy the issuer's indebtedness to the Client, and as a fiduciary, Nexus might have an obligation to pursue such remedy on behalf of such Client. As a result, another Client holding assets of the same issuer which are more junior in the capital structure may not have access to sufficient assets of the issuer to completely satisfy its bankruptcy claim against the issuer and may suffer a loss.

Nexus recognize that conflicts arise under such circumstances and will endeavor to treat all Clients fairly and equitably. To that end, Nexus has adopted procedures that are designed to enable Nexus to address such conflicts and to ensure that Clients are treated fairly and equitably. No Client is permitted to acquire securities or other interests of a class that is senior or junior to a class of securities of an issuer already held by another Client unless such investment practice has been disclosed to such Client (for example, in the governing documents for each of the affected Clients, which will also contain appropriate risk and conflict disclosures). Additionally, it is Nexus' practice to obtain consent of each respective Client's advisory board before causing or permitting Clients to invest in different tranches or series of loans or securities issued by the same borrower (other than securitized products), unless such participation is pro rata by the Clients across both tranches or series so that there is no conflict.

**Conflicts Related to Valuation:** Nexus may have a role in determining asset values with respect to Client portfolios and may be required to price an asset when a market price is unavailable or unreliable. This may give rise to a conflict of interest because Nexus may be paid an asset-based fee on certain Client. In order to mitigate these conflicts, Nexus determines asset values in accordance with valuation procedures, which are set forth in Nexus' written policies and procedures.

**Diverse Membership:** Investors in Clients are expected to include taxable and tax-exempt entities and persons domiciled or organized in various jurisdictions and subject to different tax and regulatory regimes. When investors and Clients co-invest alongside each other, they may have conflicting investment, tax and other interests, relating to, among other things, the nature of investments made by the Client, the structuring or the acquisition of investments and the nature and timing of disposition of investments. As a result, conflicts of interest may arise in connection with decisions made by Nexus including as to the nature and structure of investments that may be more beneficial for one type of investor than for another type of investor. The results of a Client's activities may affect individual investors differently, depending upon their individual financial and tax situations. For example, the timing of a cash distribution or of an event of realization of gain or loss and its characterization as long-term or short-term gain or loss may affect investors differently. In addition, Clients may make investments that may have a negative impact on related investments made by the investors in separate transactions. In selecting, structuring and managing investments appropriate for Clients, Nexus will consider the investment and tax objectives of the Client or Clients as a whole, not the investment, tax, or other objectives of any investor individually. However, there can be no assurance that a result will not be more advantageous to some investors than to others or to affiliates of Nexus than to a particular investor.

**Directors of Portfolio Companies:** Additional conflicts of interest arise because Nexus or its affiliates and their respective principals, officers, directors, partners, members, managers and employees may serve as directors of, or acquire observer rights with respect to, certain companies in which Clients invest. In the event Nexus or a related person (i) obtains material non-public information in such capacity with respect to any such company or (ii) is subject to trading restrictions pursuant to the internal policies of such company, Nexus may be prohibited from engaging in transactions with respect to the securities or instruments of such company. Such a prohibition may have an adverse effect on Clients. In addition to any fiduciary duties

that Nexus partners, principals and employees owe to Clients, as directors of portfolio companies, these Nexus partners, principals and employees owe fiduciary duties to other owners of the portfolio companies, which may be other Clients, and to persons other than Clients.

In general, such director or similar positions are often important to Clients' investment strategies and may have the effect of enhancing the ability of Nexus and its affiliates to manage investments. However, such positions may have the effect of impairing the ability of Nexus to sell the related securities when, and upon the terms, they may otherwise desire. In addition, because of the potential conflicting fiduciary duties that Nexus partners, principals and employees owe to a portfolio investment, on one hand, and that Nexus owes to the Clients, on the other hand, such positions may place Nexus partners, principals and employees in a position where they must make a decision that is either not in the best interests of Clients or not in the best interests of the other owners of the portfolio investment. Should a Nexus partner, principal or employee make a decision that is not in the best interests of the other owners of a portfolio investment, such decision may subject one or more Nexus and Clients to claims that they would not otherwise be subject to as an investor, including claims of breach of the duty of loyalty, securities claims and other director-related claims. In general, Clients will indemnify Nexus and its partners, principals and employees from such claims. In addition, Nexus partners, principals and employees may make decisions for a portfolio investment that negatively impact returns received by a Client investing in the portfolio investment or in other investments or, conversely, Nexus could make a decision that negatively impacts a portfolio investment and the returns for other Clients that may be invested in the portfolio investment. In addition, because of conflicting fiduciary duties, Nexus may be restricted in choosing investments for Clients, which could negatively impact returns received by the Client. For example, if a Nexus partner, principal or employee was to obtain material nonpublic information about another potential Client investment.

**Client Advisory Boards:** Certain Clients have advisory boards that consist of representatives of certain investors in such Clients. Any approval or consent given by such advisory boards tends to be binding on such Clients and all of their investors. Advisory boards are also generally authorized to give approvals or consents required under the Advisers Act, including under Section 206(3) of the Advisers Act. To the extent that an investor is not represented by a member of a Client's advisory board, such investor will have no influence over matters submitted to the advisory board for approval. Although Nexus has adopted policies and procedures designed to manage conflicts among Clients, members of the advisory boards may themselves have conflicts of interest that do not disqualify such members from voting or consenting to matters submitted for consideration or review to the advisory boards on which they serve. In addition, if the member has an interest adverse to Nexus, it may not act in the best interest of the Client that it represents. While Nexus may adopt policies or procedures to address such conflicts in the future, they have not done so to date, and it may not be possible to entirely eliminate such conflicts.

**Material Non-Public Information:** Nexus' Compliance Department maintains a list of restricted securities as to which Nexus or its affiliates may have access to material non-public information and in which Clients are not permitted to trade without prior approval from the Compliance Department. In the event that any employee of Nexus or its affiliates obtains such material non-public information, Nexus may be restricted in acquiring or disposing investments on behalf of Clients, which could impact the returns generated for Clients.

Notwithstanding the maintenance of restricted lists and other internal controls, it is possible that the internal controls relating to the management of material non-public information could fail and result in Nexus, or one of its investment professionals, buying or selling a security while potentially in possession of material non-public information. Inadvertent trading on material non-public information could have adverse effects on the reputation of Nexus, result in the imposition of regulatory or financial sanctions, and as a consequence, negatively impact Nexus' ability to perform investment management services on behalf of Clients. In



addition, while Nexus currently operates without information barriers on an integrated basis, Nexus could be required by certain regulations, or decide that it is advisable, to establish information barriers. In such event, Nexus' ability to operate as an integrated platform could also be impaired, which would limit Nexus' access to affiliate's personnel and impair their ability to manage Clients' investments in the manner in which they currently manage investments.

In an effort to mitigate these risks, Nexus maintains a Code of Ethics, as described herein above, and provides training to supervised persons with respect to conflicts of interest and how such conflicts are resolved under Nexus' policies and procedures.

**Investment Activity by Nexus and Affiliates:** From time to time, various potential and actual conflicts of interest arise from the overall advisory, investment and other activities of Nexus, its affiliates, and their personnel. Nexus will endeavor to resolve conflicts with respect to investment opportunities in a manner they deem equitable to the extent possible under the prevailing facts and circumstances. Nexus' affiliates invest, on behalf of themselves, in securities and other instruments that would be appropriate for, are held by, or may fall within the investment guidelines of a Client. Nexus' affiliates give advice or take action for their own accounts that may differ from, conflict with, or be adverse to, advice given to or action taken for Clients. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for, one or more Clients. Potential conflicts also arise due to the fact that Nexus' affiliates may have investments in some Clients but not in others, or may have different levels of investments in the various Clients, and that each of the Clients may pay different levels of fees.

**Other Relationships:** Clients may invest in portfolio companies that have relationships with affiliates of Nexus. Such affiliates may take actions that are detrimental to the interests of Clients in such portfolio companies. Subject to the provisions of the Clients governing documents, on any matter involving a conflict of interest, Nexus will be guided by applicable law and seek to resolve such conflict in good faith.

**No Arms'-Length Negotiation:** None of the agreements between a Client and Nexus or its affiliates is or will be the result of arms'-length negotiations.

**Conflicts Related to Relationships with Third Parties:** Nexus may work with institutional investment consultants and such consultants may also provide services to Nexus and its affiliates. Consultants may provide transaction advisory services to related parties and related parties may attend conferences sponsored by consultants. Nexus also may be hired to provide investment management or other services to an institutional investment consultant that works with a Client, which may create conflicts. Related parties may in-source or out-source to a third-party certain processes or functions, which may give rise to conflicts. There may be conflict when negotiating with third-party service providers if related parties bear operational expenses of various Clients to the extent that a given fee structure would tend to place more expense on Clients for which related parties have a greater entitlement to reimbursement or less expense on Clients for which related parties have lesser (or no) entitlement to reimbursement. Related parties may provide information about a Client's portfolio positions to unrelated third parties to provide additional market analysis and research to related parties and they may use such analysis to provide investment advice to other Clients. Related parties may purchase information (such as periodicals, conference participation, papers, surveys) from professional consultant firms, and such firms may have an incentive to give favorable evaluations of related parties to their clients.

**Approach to Other Potential Conflicts:** Various parts of this Brochure discuss potential conflicts of interest that arise from Nexus' asset management business model. Nexus discloses these conflicts due to the fiduciary relationship with its investment advisory Clients. As a fiduciary, Nexus owes its investment advisory Clients a duty of loyalty. This includes the duty to address, or at minimum disclose, conflicts of

interest that may exist between different Clients; between Nexus and Clients; or between its employees and its Clients. Where potential conflicts arise, Nexus will take steps to mitigate, or at least disclose, them. Conflicts that Nexus cannot avoid (or chose not to avoid) are mitigated through written policies that Nexus believes protect the interests of its Clients as a whole. In these cases – which include issues such as personal trading and Client entertainment – regulators have generally prescribed detailed rules or principles for investment firms to follow. By complying with these rules, using robust compliance practices, Nexus believes that it has handled these conflicts appropriately. These interactions are not static; Nexus' business is continually evolving and changes in Nexus' activities can lead to new potential conflicts. Nexus reviews its policies and procedures on an ongoing basis to evaluate their effectiveness and update them as appropriate.

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## Item 12 Brokerage Practices

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Generally, Nexus receives discretionary investment authority from its Clients at the outset of an investment advisory relationship. Subject to the investment objectives, policies and restrictions of each Client as set forth in their respective governing documents, Nexus has discretionary authority to determine the type, amount, and price of securities and investments to be bought and sold on behalf of each Client, including the selection of, and if applicable commissions paid to, counterparties.

### **Counterparty Selection**

Nexus seeks to execute transactions on behalf of its Clients in a manner that is fair and equitable to all Clients, and to exercise diligence and care throughout the transaction process. In placing portfolio transactions, Nexus uses reasonable diligence to ascertain the “best” market price for all securities bought or sold in that market so that the price to the Client is as favorable as possible under prevailing market conditions. The determinative factor is whether the transaction represents the best qualitative execution for the Client and not whether the lowest possible commission cost is obtained. Nexus considers the full range of quality of the broker’s service in selecting brokers to meet best execution obligations and may not pay the lowest commission rates available. Nexus generally takes the following factors into account in selecting brokers for portfolio transactions:

- (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any);
- (ii) the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution;
- (iii) the financial strength, integrity and stability of the broker;
- (iv) the broker firm’s risk in positioning a block of securities;
- (v) the quality, comprehensiveness and frequency of available research services considered to be of value; and
- (vi) the competitiveness of commission rates in comparison with other brokers satisfying Nexus’ other selection criteria.

Nexus may not weigh any of these factors equally.

Nexus primarily pursues investment transactions on behalf of its Clients in securities issued by privately held middle market companies, which primarily consist of senior secured loans and other asset-based loans, stressed and distressed debt, investment and non-investment grade credit, and structured debt and equity of middle market companies. Transactions in such securities are typically privately negotiated and will not require the use of brokers or the payment of brokerage commissions. However, in certain circumstances an assignment fee may be charged by the administrative agent for a particular loan, and fees may be payable when buying and selling bank loans.

### **Soft-Dollars Arrangements**

As of the date of this Brochure, Nexus does not engage in soft dollar arrangements, including participate in any soft dollar relationships with other firms for research or any other service. Section 28(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is a “safe harbor” that permits an investment manager to use commissions or “soft dollars” to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process. Nexus will limit the

use of “soft dollars” to obtain research and brokerage services to services which constitute research and brokerage within the meaning of Section 28(e).

### **Brokerage for Client Referrals**

Nexus does not consider, in selecting a broker-dealer, whether Nexus or an affiliate receives Client or investor referrals from that broker-dealer.

### **Directed Brokerage**

Nexus does not routinely recommend, request or require that a Client direct Nexus to execute transactions through a specified broker-dealer. Generally, Nexus does not accept Clients who require transactions be executed through a specified broker-dealer. However, Clients may recommend Nexus uses their preferred broker-dealer(s). Nexus will use such broker-dealer(s) subject to its determination that said broker-dealer provides best execution of the Client transactions. In a situation where a Client directs Nexus to place trades with a particular broker-dealer, Nexus may not be free to seek the best price, volume discounts or best execution by placing transactions with other broker-dealers. Additionally, as a result of directing Nexus to place trades with a particular broker-dealer, a disparity in commission charges may exist between the commissions charged to Clients who direct Nexus to use a particular broker-dealer and those Clients who do not direct Nexus to use a particular broker-dealer as well as a disparity among the brokers to which different Clients have directed trades.

### **Order Aggregation**

If Nexus determines that the purchase or sale of the same security is in the best interest of more than one Client, Nexus may, but is not obligated to, aggregate orders in order to reduce transaction costs to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Client will receive the average price with transaction costs allocated pro rata based on the size of each Client's participation in the order (or allocation in the event of a partial fill) as determined by Nexus. In the event of a partial fill, allocations generally will be made pro rata based on the initial order, but may be modified on a basis that Nexus deems to be appropriate, including, for example, in order to avoid odd lots or de minimis allocations. This may result in allocations of certain investments on other than a pari passu basis.

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## **Item 13 Review of Accounts**

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Nexus' Investment Committee has the responsibility to exercise and maintain prudent supervision and control of the Client's investments and portfolios. The Investment Committee continuously reviews and insures the investment policies, guidelines, and objectives for each Client's general investment strategy are achieved and attained per the Client's investment policies, guidelines, and objectives as stated in the Client's governing documents. The Investment Committee maintains prudence and effectiveness of each investment of the Client and formulates and oversees the investment policies and management of the Client's assets, and periodically reviews investment strategies and investment performance. In carrying out its duties the Investment Committee provides recommendations on investment opportunities through a stringent due diligence process to identify investment opportunities that meet the Client's stated investment objective and goals; reviews individual investment performance and recommends changes when appropriate; and works closely with staff to ensure that the investment objectives are being met as stated in the Client's governing documents. In monitoring the Client's portfolio of investments, the Investment Committee ensures (i) the management of investments and capital actions are in compliance and consistent with attainment of the Client's investment policy, financial objectives and strategy goals, and (ii) the Client's portfolio is in compliance with legal and regulatory requirements. The review process is further augmented by regular quarterly meetings between the Investment Committee and the Chief Compliance Officer. The Chief Compliance Officer also performs ongoing reviews of all such accounts for compliance with investment policies and restrictions. In addition to, and not as a substitute for the foregoing, additional reviews are conducted in accordance with Client requests as set forth in the relevant investment management agreement. The Investment Committee is comprised of Messrs. Damian J. Giangiacomo and Mr. Michael S. Cohen. The Investment Committee meets frequently, if not daily, by meeting in person, telephone conference, or other interactive electronic communication to discuss market conditions, portfolio analysis, and investment transaction matters. Messrs. Damian J. Giangiacomo and Mr. Michael S. Cohen are ultimately responsible for the Clients. It should be noted that Nexus may delegate certain portfolio management and other responsibilities to designated Nexus employees.

### **Nature and Frequency of Reporting**

Nexus will furnish to all Sponsored Private Fund investors within 120 days after the Sponsored Private Fund's fiscal year end an audited, written annual report, which typically includes financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), a report of the activities of the Sponsored Private Fund during the year, a schedule and description of the investments owned, a description of investments acquired or disposed of during the year. The annual report is prepared and the delivery of it are intended to comply with the SEC's custody rule, as described in more detail below in Item 15 of this Brochure. In addition, Nexus will cause annually the delivery of tax information necessary for the completion of income tax returns. On a quarterly basis, each Sponsored Private Fund investor will be furnished with unaudited capital statements. Sponsored Private Fund investors will also receive descriptive information concerning the Sponsored Private Fund's investments, which includes performance on a quarterly basis.

Nexus also generally holds annual or semi-annual limited partnership meetings to review with Fund investors the investments made on their behalf.

The frequency and nature of reports prepared for Clients (other than Sponsored Private Funds) varies depending on each Client's requirements and interests. Nexus provides and may in the future provide certain information and documentation to certain Clients that are not distributed or otherwise made available to other Clients. Clients generally receive monthly or quarterly written reports showing portfolio activities

and performance on a current and year-to-date basis. These written reports typically disclose all holdings in the Client's account, including cash, together with cumulative year-to-date information about dividends and interest realized by the account. Nexus may furnish certain account transaction and portfolio holdings to certain Clients and their service providers on a more frequent basis. Depending on the type of account, Nexus may also provide oral and/ or written presentations about the account's performance on a periodic basis. Nexus will also provide Clients, upon request, other information regarding their portfolio within the parameters of its compliance policies. Face-to-face meetings or teleconferences are held at least annually with each Client. Clients may request a meeting with Nexus at any time.

With respect to each Client, their qualified custodian generally provides, on at least a quarterly basis, an account statement identifying the amount of the funds and securities in the Clients' account(s) and any transactions in the Clients' account(s) during the applicable calendar quarter.

**Clients are urged to compare any account statements that they receive from Nexus with the account statements that it receives from its qualified custodians.**

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## Item 14 Client Referrals and Other Compensation

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Nexus does not receive any economic benefits, including sales awards or prizes, from non-clients for providing investment advice and other advisory services.

Currently Nexus nor its affiliates directly or indirectly compensate any third-party for advisory client referrals (each a “Solicitor”). In the event Nexus desires to engage a third-party Solicitor in the future to solicit prospective advisory clients, such third-party client solicitation arrangements will be made in compliance with Rule 206(4)-3 of the Advisers Act (the “Cash Solicitation Rule”), which requires that, among other things, compensation to a Solicitor be made pursuant to a written agreement and, for third-party Solicitor arrangements, that the Solicitor provide to each person solicited for Nexus’ advisory services, a written disclosure statement (the “Solicitor’s Disclosure Statement”) and current copy this Brochure.

However, Nexus has, and may again in the future, entered into written agreements with, and compensate non-affiliated third-parties for referring investors into the Clients (*i.e.*, the Funds) (each a “Placement Agent”). These Placement Agent arrangements will be fully disclosed to affected investors and will generally be consistent with the requirements of the Cash Solicitation Rule under the Advisers Act, which only applies to the solicitation of Clients and not investors. Generally, the terms of such arrangements will vary but call for Nexus to pay the Placement Agent a fee equal to a percentage of capital contributions, Management Fees, incentive fees, incentive allocations, or a combination of such contributions or fees borne by each investor introduced to a Fund by the Placement Agent.

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## Item 15 Custody

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While it is Nexus' practice not to accept or maintain physical possession (*i.e.*, custody) of any Client assets, Nexus may be deemed, under Rule 206(4)-2 of the Advisers Act (the "Custody Rule"), to have custody of the assets of certain Clients by virtue of its common control with the Clients' respective General Partner and the authority the General Partner has over such Clients or their assets.

In order to comply with the Custody Rule, Nexus utilizes the services of "qualified custodians" (*e.g.*, banks) to hold and maintain all cash and securities of the Clients (except with respect to privately offered securities). In accordance with the Custody Rule, Nexus also (i) has engaged independent public accounting firms that are members of, and examined by, the Public Company Accounting Oversight Board ("PCAOB") to conduct annual audits of each Client with assets over which Nexus is deemed to have custody; and (ii) distributes audited annual financial statements of such Clients, prepared in accordance with GAAP, to all investors within at least 120 days after the Client's fiscal year end. In addition, upon the final liquidation of any such Client, Nexus will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Client to all investors promptly after completion of the audit. Qualified custodians are not expected to provide account statements directly to investors in the Clients.

With respect to the Funds that are sub-advised by Nexus, Nexus is deemed not to have custody.



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## Item 16 Investment Discretion

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As a general rule, Nexus receives discretionary investment authority from its Clients at the outset of an advisory relationship. Depending on the terms of the applicable investment management agreement, Nexus' authority may include the ability to select broker-dealers through which to execute transactions on behalf of its Clients, and to negotiate the commission rates, if any, at which transactions are effected. Nexus may also have the authority to enter into International Swap and Derivatives Association ("ISDA"), repurchase clearing, trading brokerage, margin future, options, or other types of agreements on behalf of Nexus' Clients. In making decisions as to which securities are to be bought or sold and the amounts thereof, Nexus is guided by the mandate selected by the Client and any Client-imposed guidelines or restrictions. Unless Nexus and the Client have entered into a non-discretionary arrangement, Nexus generally is not required to provide notice to, consult with, or seek the consent of its Clients prior to engaging in transactions. *See Item 4 – Advisory Business of this Brochure for additional information on Clients' ability to tailor investment guidelines. See Item 12 – Brokerage Practices of this Brochure for more information.*

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## **Item 17 Voting Client Securities**

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### **Proxy Voting Authority**

Nexus shall vote proxy proposals, amendments, consents or resolutions (collectively, “proxies”) solicited by or with respect to the issuers of securities in which assets of a Client portfolio are invested, unless: (i) the Client is subject to ERISA and the Management Agreement between Nexus and the Client expressly precludes the voting of proxies by Nexus; (ii) the Client is not subject to ERISA and the Client otherwise instructs Nexus; or (iii) Nexus has responsibility for proxy voting and, in Nexus’ judgment, the cost or disadvantages of voting the proxy would exceed the anticipated benefit to the Client. If the Client does not grant direct voting authority to Nexus, Clients will not receive information about their proxies from Nexus. Instead, Clients will be instructed to receive proxies from their custodian, transfer agent or other third-party service providers such as their proxy service provider.

### **Primary Consideration in Voting**

When Nexus votes a Client’s proxy with respect to a specific issuer, a Client’s economic interest as a shareholder of that issuer is Nexus’ primary consideration in determining how proxies should be voted. Nexus will not consider interests of Nexus, other stakeholders of the issuer or interests the Client may have in other capacities. Nexus shall vote proxies with the goal of maximizing the value of the securities in Client portfolios.

### **Engagement of Proxy Advisory Service Provider**

In the case of publicly-traded securities held directly by a Client, Nexus may engage one or more independent third-party proxy advisory firms (“Proxy Firm”) to (i) perform research and make recommendations to Nexus as to particular shareholder votes being solicited; (ii) perform the administrative tasks of receiving proxies and proxy statements, marking proxies as instructed by Nexus and delivering those proxies; (iii) retain proxy voting records and information; and (iv) report to Nexus on its activities. In no circumstances will a Proxy Firm have the authority to vote proxies except in accordance with standing or specific instructions given to it by Nexus. Nexus will retain final authority and fiduciary responsibility for the voting of proxies. Nexus may vote proxies contrary to the recommendations of the Proxy Firm if it determines that such action is in the best interest of a Client.

### **Proxy Voting Policy**

Consistent with Nexus’ fiduciary duty to make voting decisions that maximizing long-term shareholder value that are in its Clients’ best interests, Nexus assesses all proxies solicited on a case-by-case basis and based on the facts and circumstances presented by each proxy, Nexus will either vote or abstain based upon its determination as to what is in the Clients’ best interest.

In exercising its discretion, Nexus may take into account a wide array of factors relating to the matter under consideration, the nature of the proposal and the company involved. As a result, Nexus may vote in one manner in the case of one company and in a different manner in the case of another where, for example, the past history of the company, the character and integrity of its management, the role of outside directors, and the company’s record of producing performance for investors justifies a high degree of confidence in the company and the effect of the proposal on the value of the investment. Similarly, poor past performance, uncertainties about management and future directions, and other factors may lead Nexus to conclude that particular proposals present unacceptable investment risks and should not be supported. In

addition, Nexus also evaluates proposals in context. For example, a particular proposal may be acceptable standing alone, but objectionable when part of an existing or proposed package. Special circumstances may also justify casting different votes for different Clients with respect to the same proxy vote.

### **Conflicts of Interest**

Conflicts of interest involved in a proxy vote shall be addressed through the following three-step process:

#### ***Identification of Potential Conflicts of Interest***

Nexus will be deemed to have a potential conflict of interest when voting proxies if:

- Nexus manages assets for that issuer or an affiliate of the issuer and also recommends that its other Clients invest in such issuer's securities;
- A director, trustee, officer or 10% shareholder of the issuer or an affiliate of the issuer is a director of a Client, a Client or an employee of Nexus;
- Nexus is actively soliciting that issuer or an affiliate of the issuer as a Client;
- Clients who sponsor, publicly support or have material interest in a proposal upon which Nexus will be eligible to vote;
- Nexus manages a pension plan, employee benefit plans, or provides brokerage, underwriting, insurance, or banking services to an issuer whose management is soliciting proxies;
- Nexus or an affiliate has a substantial business relationship (separate from Nexus' investment strategy) with an issuer or a proponent of a proxy proposal and this business relationship may influence how the proxy vote is cast;
- Nexus or an affiliate has a business relationship (separate from Nexus' investment strategy) or personal relationship with participants in a proxy contest, corporate directors or candidates for directorships;
- An officer or employee of Nexus or an affiliate may have a familial relationship to an issuer (e.g., a spouse or other relative who serves as a director of an issuer);
- A director or executive officer of the issuer has a personal relationship with Nexus;
- Another relationship or interest of Nexus, or an employee of Nexus, exists that may be affected by the outcome of the proxy vote and that Nexus deems to be an actual or potential conflict for the purposes of its proxy voting policy; or
- Any other conflict of which Nexus becomes aware.

Each employee who is a member of the investment team that recommends votes or serves on the Investment Committee shall, on at least an annual basis, provide to the CCO a list of any public companies with or in which he or she has a relationship or could otherwise be deemed to have a conflict. Each such employee shall also certify to Nexus at least annually that he or she agrees to update such list promptly upon becoming aware of any relationship, interest or conflict other than what he or she originally disclosed.

#### ***Determination of Material Conflicts***

When Nexus encounters a potential conflict of interest, it shall review its proposed vote using the following analysis to ensure its voting decision does not generate a conflict of interest:

- If the proposed vote is consistent with Nexus' proxy voting policy, no further review is necessary.
- If the proposed vote is contrary to Nexus' proxy voting policy and the Client's position on the proposal, no further review is necessary.
- If the proposed vote is contrary to Nexus' proxy voting policy or is not covered, is consistent with the Client's position, and is also consistent with the views of the Proxy Firm, no further review is necessary.
- If the proposed vote is contrary to Nexus' proxy voting policy or is not covered, is consistent with the Client's position and is contrary to the views of the Proxy Firm, the vote will be presented to the CCO. The CCO will determine whether the proposed vote is reasonable. If the CCO cannot determine that the proposed vote is reasonable, the CCO may refer the votes back to the Client(s) or take other actions as the CCO deems appropriate.

### ***Establishment of Procedures to Address Material Conflicts***

If a material conflict of interest with respect to a particular vote is encountered, employee are required to contact the CCO to determine how to vote the proxy consistent with the best interests of a Client and in a manner not affected by any conflicts of interest.

### **Recordkeeping**

Pursuant to Rule 204-2, Nexus will retain the following five (5) types of records relating to proxy voting: (i) proxy voting policy and procedures; (ii) proxy statements received for Client securities; (iii) records of votes cast on behalf of Clients; (iv) written Client requests for proxy voting information and written Nexus responses to any Client request (whether oral or written) for proxy voting information; and (v) any documents prepared by Nexus that were material to making a proxy voting decision or that memorialized the basis for the decision. All of the proxy voting records referenced herein above will be maintained by Nexus for a period of not less than five (5) years from the end of Nexus' fiscal year during which the last entry was made in the records, the first two (2) years in an appropriate office of Nexus

### **Policy Statement and Requests**

Nexus will make its proxy voting policies and Nexus' proxy voting records with respect to a Client's account available to that Client or its representatives for review and discussion upon the Client's request or as may be required by applicable law. Nexus generally will not disclose publicly its past votes, share amounts voted or held or how it intends to vote on behalf of a Client account except as required by applicable law, but may disclose such information to a Client who itself may decide or may be required to make public such information. Questions related to Nexus' proxy voting policies, the proxy voting process and/or information regarding how Nexus voted proxies relating to a Client's portfolio of securities may be obtained by Clients, free of charge, by contacting the CCO at [jbrown@nexuslp.com](mailto:jbrown@nexuslp.com) or (424) 330-8820.

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## **Item 18 Financial Information**

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Nexus does not solicit prepayment of more than \$1,200 in fees per Client six months or more in advance, and thus has not provided a balance sheet according to the specifications of 17 CFR Parts 275 and 279.

There is no financial condition that is reasonably likely to occur that would impair Nexus' ability to meet contractual commitments to Clients. Nexus has not been the subject of a bankruptcy petition during the past ten years.