



Whitebox Advisors LLC

Form ADV Part 2A – Disclosure Brochure August 16, 2021

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This Brochure provides information about Whitebox Advisors LLC. If you have any questions about the contents of this Brochure, please contact us at 612-253-6001 or invrelations@whiteboxadvisors.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Whitebox Advisors LLC is registered with the SEC, pursuant to the Investment Advisers Act of 1940, as an investment adviser. Registration of an investment adviser does not imply any level of skill or training.

This document does not constitute an offer to sell or a solicitation to buy interests in any private investment fund. The information contained in this document is qualified in its entirety by reference to disclosures made in the relevant confidential private placement memorandum (“Confidential Offering Memorandum”) and related attachments and exhibits for each private investment fund advised by Whitebox Advisors LLC and its affiliates. These documents should be carefully reviewed prior to making an investment decision.

Additional information about Whitebox Advisors LLC also is available on the SEC’s website at www.adviserinfo.sec.gov.



Item 2 – Material Changes

This Item of the Brochure will discuss only specific changes that are made to the Brochure and provide clients with a summary of such changes. The last update of our brochure was an amendment filing on March 30, 2021 .

This annual amendment filing to our Brochure, dated August 16, 2021, contains the following revisions:

- Item 4 – updated ownership information

Currently, the Brochure may be requested by contacting Investor Relations at 612-253-6001 or invrelations@whiteboxadvisors.com.

Additional information about Whitebox Advisors LLC is also available via the SEC's web site www.adviserinfo.sec.gov.



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Item 4 – Advisory Business

The Adviser

Whitebox Advisors LLC (together with its Relying Advisers, the “Adviser,” “Whitebox” or “we”), a Delaware limited liability company, manages and advises private investment funds. The private investment funds (the “Private Funds”) are either categorized by Whitebox as “open-end” funds (i.e. private funds that do not have a defined investment period and generally permit investors to invest and/or make redemptions on a periodic basis), “closed-end” funds (i.e. private funds where investor capital is locked-up, has a stated investment period and term but no ability to redeem prior to the end of the stated term) or Collateralized Loan Obligations (“CLOs”). Whitebox also has, and will likely continue to, advise separately managed accounts. The private investment funds and any separately managed accounts that Whitebox may advise are referred to collectively as the “Clients” or “Client Accounts”. The Adviser may provide investment advice to the Private Funds through special purpose investment advisers controlled by the Adviser (the “Relying Advisers”). References herein to the “Adviser” include Relying Advisers unless otherwise required by the context.

Whitebox employs qualitative and other analytical screens to seek arbitrage opportunities in credit, relative value, equities, structured credit and event strategies. (Item 8 provides more information on the investment strategies). Founded in 1999, as of December 31, 2020 Whitebox managed approximately \$9.975 billion in discretionary regulatory assets under management (as defined in Form ADV Part 1A) and as of the same date employed approximately 74 professionals. As of June 30, 2021, 64.85% of the Adviser is owned by Partner, Robert Vogel (via Skagday, Inc.), 8.72% owned by Partners, Jacob Mercer and 6.54% owned by Partner, Paul Roos. Dyal Capital Partners II (A), LP and Dyal Capital Partners II (B), LP (together, the “Dyal Fund”), private funds managed by Dyal Advisors LLC, hold non-voting minority equity interests in each of the Adviser and Whitebox General Partner LLC, the General Partner of the private investment funds (the “General Partner”). Neither the Dyal Fund, Dyal Advisors LLC nor any affiliate thereof is involved in the day-to-day management of the Adviser, nor does any such party have any control over the investment decisions of the Private Funds. However, the business services platform affiliated with the Dyal Fund may provide various consulting services to the Adviser, including business development, talent management, and operational and business best practices consultation. While certain investors in the Dyal Fund may also be investors in the Private Funds, confidentiality obligations applicable to the Dyal Fund preclude the dissemination of certain confidential information relating to the Adviser, the General Partner or the Private Funds to such investors.

Whitebox has additional offices in Austin, TX at 2500 Bee Cave Road, Building 3, Suite 120, Austin, TX 78746; New York, NY at 280 Park Avenue, Suite 43W, New York, NY 10017; London at Standbrook House, 2-5 Old Bond Street, London W1S 4PD, England, through its affiliate Whitebox Advisors London, LLP; and Australia at Suite 304 and 306, 46-48 East Esplanade, Manly NSW 2095, through its affiliate Whitebox Advisors Australia Pty Ltd.

Private Investment Funds

The Adviser provides discretionary investment advisory services for both open-end and closed-end private investment funds with varying investment objectives. (Item 10 provides additional information about the Private Funds, Item 8 provides additional information on investment objectives). The Adviser also provides investment management services, via its subsidiary and Relying Adviser, Whitebox Capital Management LLC (hereinafter “WCM”), to Whitebox CLO I Ltd and Whitebox CLO II Ltd subject to the terms of the collateral management agreements and/or indentures.



Item 10 provides additional information regarding the Relying Advisers. More information concerning the Private Funds is available in each Private Fund's Confidential Offering Memorandum and/or constitutional documents.

Separately Managed Accounts

Whitebox has in the past, and may also manage in the future, a very limited number of separate accounts for institutional clients ("Separately Managed Accounts"). Any such Clients may impose certain investment restrictions with respect to leverage, concentration, type of investments, counterparty relationships, and strategy.

Item 5 – Fees and Compensation

Private Funds

The fees for advisory services to the Private Funds are set forth in the applicable Private Fund's Confidential Offering Memorandum and/or constitutional documents. Typically, each Private Fund pays the Adviser a fee generally equal to a percentage of the capital account balances of each Private Fund investor as of the first day of each calendar month (a "Management Fee"), payable either in advance or in arrears (depending on the Private Fund).

The Adviser, the General Partner or their affiliates may also be entitled to receive performance based compensation from each Private Fund, which is assessed based on a percentage of net profit allocated to investors (an "Incentive Fee").

With respect to Private Funds that are categorized as open-end funds, the Incentive Fee, when applicable, is generally determined for each investor at the end of each calendar year. The Incentive Fee will generally equal 20% of net profits allocated to each investor, subject to a net loss recovery account commonly referred to as a "high water mark" (pursuant to which a loss allocated to a Private Fund investor must first be offset by profits earned in ensuing Incentive Fee periods).

The Adviser has entered into various placement agent agreements with unaffiliated broker dealers whereby certain series of interests/classes of shares (as applicable) in a number of the Private Funds are being referred by such placement agents to its clients. The terms of these series/classes are identical to the terms otherwise set forth in the Confidential Offering Memorandum, except as specifically described therein with respect to the following: placement agent fees, minimum initial investment amount, minimum additional investment amount, and management fee rate.

The Incentive Fee for Private Funds that are categorized as closed-end funds is generally paid only after investors have received distributions equal to their invested capital and a preferred return according to the following "distribution waterfall":

1. First, one hundred percent (100%) to the Limited Partner until the cumulative amount distributed to it pursuant to this paragraph (1) is equal to its total Capital Contributions to the Fund for all purposes;
2. Second, one hundred percent (100%) to the Limited Partner until the cumulative amount distributed to it pursuant to this paragraph (2) is equal to an eight percent (8%) cumulative



annual return, compounded annually, on its Capital Contributions (net of prior capital distributions), calculated from the date of each capital contribution through the relevant distribution dates;

3. Third, one-hundred percent (100%) to the General Partner until the General Partner has received twenty percent (20%) of the aggregate distributions made pursuant to paragraph (2) above and this paragraph (3); and
4. Thereafter, eighty percent (80%) to the Limited Partner and twenty percent (20%) to the General Partner.

The Adviser reserves the right to negotiate a higher or lower Management Fee and Incentive Fee with certain investors in its discretion. Affiliated Partners of Whitebox are offered a separate sub-class or series in certain Private Funds that is not subject to any Management Fee or Incentive Fee. Employees of Whitebox are offered a separate sub-class or series in certain Private Funds that is subject to a reduced Management Fee and no Incentive Fee. All other terms and conditions generally applicable to an investment in one or more of the Private Funds apply equally to any investment by an affiliated Partner or employee of Whitebox.

With respect to CLOs, WCM is compensated for the performance of its obligations as Collateral Manager through a management fee which consists of a Senior Management Fee of 0.20% per annum as well as a Subordinated Management Fee of 0.30% per annum. Such fees are typically payable quarterly in arrears. Private Funds managed by Whitebox may invest in the CLOs; To the extent that a Whitebox Private Fund's CLO investment is subject to such management fees (described above) or performance-based fees (described below), the amount of such fees paid to WCM are subject to rebate or offset by Whitebox in favor of such private investment fund.

Additionally, WCM has entered into a staff and services agreement with Whitebox pursuant to which Whitebox provides certain services associated with the management of CLOs, including access to its full team of research analysts and portfolio managers employed by Whitebox, office space, back office services such as loan settlement, legal and compliance services, and performance of trade executions upon instruction from Whitebox. Such services also include services provided through one or more of Whitebox's affiliates. By way of compensation for these services, Whitebox receives a services fee from WCM. In addition, performance compensation is payable to WCM on a quarterly basis, typically 20% of excess cash flow available after paying liability costs and expenses.

CLO investors and prospective investors should refer to the offering circular of the CLO for detailed information with respect to the fees associated with the CLO.

Please refer to the individual Private Fund's Confidential Offering Memorandum and/or Offering Circular for additional detail. (Item 6 provides further information regarding Incentive Fees, including potential conflicts of interest).

Separately Managed Accounts

The Adviser does not maintain a standard fee schedule for Separately Managed Accounts, thus fees are negotiated on an individual basis. However, fees charged to Separately Managed Accounts would generally resemble the fees assessed to Private Funds following similar investment strategies and would generally include both a Management Fee and Incentive Fee. (Item 6 provides more information about Incentive Fees, including potential conflicts of interest).



Additional Expenses

Each Client Account (Private Fund or Separately Managed Account) managed by Whitebox or its Relying Advisers is responsible for bearing all of its operating and other expenses. These expenses typically include, but are not limited to the below-listed expenses. Expenses are detailed in each Private Fund's Confidential Offering Memorandum/constitutional documents or investment management agreements negotiated with any Separately Managed Account.

- costs and expenses in connection with purchasing, holding, selling or exchanging securities and other assets (whether or not ultimately consummated), including brokerage fees, interest on borrowed money, real or personal property taxes on investments, costs and expenses in connection with the registration of investments under applicable securities laws, and related legal, professional, accounting and other fees and expenses;
- fees and expenses in connection with the maintenance of bank, brokerage or custodial accounts;
- legal (including offering document updates and supplements and side letters), accounting, administration, auditing, bookkeeping, tax compliance services and tax return preparation, performance verification, consulting, valuation and other professional fees and expenses;
- transfer agent fees and expenses;
- directors' fees and expenses;
- costs or expenses in connection with the maintenance or operation of an Oversight Committee, including fees payable to independent members of the Oversight Committee;
- premiums for insurance in which a Client Account is a named beneficiary, including, without limitation, errors and omissions, directors and officers and cybersecurity insurance;
- costs and expenses in connection with meetings of and communications with shareholders and maintenance of online portals for the delivery of information, transparency and reports to shareholders, prospective shareholders, counterparties and service providers (such portals may include, without limitation, third-party risk aggregation services and other client reporting tools);
- costs of research (including subject matter experts and other consultants), data, data delivery systems, execution services and related software and hardware that are of benefit to Client Accounts and not otherwise provided by brokers (e.g., systems and tools, such as Bloomberg, Thomson Reuters, Markit, IDC, Capital IQ, and similar tools and systems) utilized by Whitebox or a Private Fund's General Partner in connection with the following, without limitation: (1) the management and operation of Client Accounts; (2) the evaluation and monitoring of investments and potential investments; (3) fundamental, qualitative and quantitative analysis; (4) risk oversight, including stress testing, monitoring risk thresholds and adherence to investment guidelines; (5) valuation of a Client Account's investment portfolio, including the cost of data, tools and pricing services utilized by Whitebox or the Administrator; and (6) costs of the settlement of investment transactions (while the Client Accounts bear such costs described in items (1) through (6) of this paragraph, Whitebox also will use or benefit from certain of the foregoing and will not reimburse the Client Accounts for that use);



- costs and fees relating to preparation and filing of required regulatory filings and reports in the United States (including state-specific filings and reports) and foreign jurisdictions (including, without limitation, filings under the U.S. Securities Act of 1933, as amended (the “Securities Act”), such as Form D, filings under the Exchange Act, such as Section 13 and Section 16 filings, investment company related filings under the Investment Company Act and the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”), such as Form PF, filings under the U.S. Commodity Exchange Act, state “blue sky” filings, filings in connection with International Swaps and Derivatives Association (“ISDA”) protocols, such as ISDA protocol adherences, filings and reporting in connection with AIFMD, such as Annex IV reporting), and tools and systems put in place to comply with the foregoing;
- costs and fees incurred in connection with the preparation and provision of transparency, Open Protocol and similar reports;
- registered agent and office costs and expenses (including costs and expenses related to corporate services and administrative services) and other regulatory costs and expenses, including fees and expenses associated with investors and prospective investors in the United States and foreign jurisdictions;
- taxes applicable to Client Accounts on account of its operations;
- costs and expenses arising out of Client Accounts indemnification obligations;
- investment-related travel expenses;
- costs, fees and expenses in connection with the formation, operation and liquidation of special purpose vehicles through which Client Accounts may invest; and
- costs and expenses in connection with the liquidation of Client Accounts.

Further, Whitebox will benefit from certain products and services paid for by Client Accounts and thus, a specific Client Account may not necessarily, in any particular instance, be the direct or exclusive beneficiary of a service or product for which it bears an expense. Specifically, Whitebox uses data and data delivery systems (such as Bloomberg terminals or similar systems and tools) for settlement of investment transactions, maintenance of Whitebox’s restricted securities list, security pricing and other services paid for in part by Private Funds. In addition, Whitebox uses risk reporting, data and systems paid for in part by the Private Funds for the provision of investment management services to Client Accounts and for purposes of limited partner and prospective limited partner reporting, including in connection with risk oversight and monitoring, stress testing and monitoring adherence to investment guidelines for the benefit of Client Accounts. Whitebox benefits from using these services and products without having to pay for them at the expense of Client Accounts. In the event that Whitebox is acting as an ERISA fiduciary to a Private Fund, the benefits derived by Whitebox will be (a) such that the service or product would not have been retained or acquired by Whitebox but for the service and/or product being used by Client Accounts; and (b) incidental to the utility of the product or service to Client Accounts.

Each Client Account bears its own expenses as set forth in its respective investment management or other agreement with Whitebox or its affiliates. Expenses borne by one Client Account may differ from the expenses borne by other Client Accounts. In certain instances, one Client Account may bear expenses that Whitebox and/or its affiliates have agreed to bear for one or more other Client Accounts.



WHITEBOX

Whitebox has a conflict of interest in determining whether a service or product that it uses should be borne by a feeder fund or master fund, which determination is inherently subjective. Whitebox exercises good faith in all such determinations.

Additional Compensation

Whitebox and its employees do not accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products. Whitebox has no agreements, oral or in writing, where it is paid cash by or receives some economic benefit (including commissions, equipment or non-research services) from a non-client in connection with giving advice to clients.

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

The Adviser receives Incentive Fees. An Incentive Fee is an advisory fee based on a percentage of capital gains or capital appreciation of Client assets.

Potential Conflict of Interest

Receipt of Incentive Fees from the Private Funds and any Separately Managed Accounts creates a potential conflict of interest. Not all of Whitebox's Clients pay the same level of Incentive Fees. Whitebox can therefore potentially receive higher fees from accounts with a higher Incentive Fee. For example Whitebox may have an incentive to direct the "best" investment ideas to Client Accounts that pay a higher Incentive Fee or allocate a sequence of trades in favor of the higher performance fee account (known as "side-by-side management"). To manage these potential conflicts:

- All Private Funds and Separately Managed Accounts are managed according to the Clients' and Accounts' individual strategy.
- The Adviser performs a periodic review of each Client's investment strategy versus actual holdings, as well as performance dispersion across Client Accounts managed according to the same investment strategy. In addition, Client Accounts are periodically monitored for consistency with stated objectives, strategy and any restrictions imposed on management of the Account

Whitebox has implemented trade allocation policies and procedures designed to ensure that trades are allocated fairly and equitably over time and to prevent this conflict from influencing the allocation of investment opportunities among Clients. (Item 12 provides further information regarding trade allocation practices).

Please refer to the applicable Private Fund Confidential Offering Memorandum, Offering Circular and/or constitutional documents (as applicable) for additional detail.

Item 7 – Types of Clients

The Adviser (or a Relying Adviser) provides investment management services for the Private Funds, and may with respect to Separately Managed Accounts (corporations and other businesses).



Private Funds and Separately Managed Accounts

Investors in the Private Funds must meet certain suitability requirements, and upon subscription to a Private Fund must be “Accredited Investors” as defined in the Securities Act. Investors must also be “Qualified Purchasers” as defined under the Investment Company Act of 1940, as amended (the “Investment Company Act”), or a “knowledgeable employee” (as defined under the Investment Company Act) (Item 10 provides additional information about the Private Funds.) In general, in order for an investor who is an individual to be a Qualified Purchaser, the investor must have an investment portfolio of at least \$5 million. In the case of a corporation, partnership, or other entity, it must have an investment portfolio of at least \$25 million. Interests in the Private Funds that are categorized as open-end funds generally are offered on a monthly basis, or on a frequency determined by the Adviser. Interests in the Private Funds that are categorized as closed-end funds are typically only offered within 6 months after the initial closing of the sale of interests in the fund.

Separately Managed Account clients would also be required to meet certain sophistication and suitability requirements upon establishment of such accounts.

Any Private Fund investor or Separately Managed Account client subject to performance based compensation will also be required to be a “qualified client” within the meaning of the Advisers Act. Additional restrictions may apply with respect to performance based compensation paid by benefit plan investors that are Separately Managed Account clients or are invested in Private Funds that are “Plan Assets” under ERISA.

Minimum initial investment for investors in open-end or closed-end Private Funds ranges from \$1 million to \$10 million, depending on the Private Fund. Investors in a CLO must also meet certain suitability requirements, and upon subscription to a CLO must be either “Qualified Institutional Buyers” as defined in Rule 144A under the Securities Act or “Qualified Purchasers” as defined in the Securities Act or Non U.S. persons (as defined in Regulation S under the Securities Act) and that are outside the United States in reliance on Regulation S. The minimum initial investment amount for investors in a CLO is generally at least \$250,000. Minimum initial account balance for Separately Managed Account clients is generally \$250 million. The Adviser, in its discretion may permit minimum initial investments or Separately Managed Account balances lower than these established minimums.

Side Letter Agreements. Subject to the approval of the Board of Directors or Oversight Committee of each Private Fund, as applicable, certain Private Funds have, and may again from time to time enter into a side letter or similar agreement with a Private Fund investor which has the effect of establishing rights under, or altering or supplementing the terms of the respective Confidential Offering Memorandum, Partnership Agreement or constitutional documents. For example, such terms and conditions may provide for special redemption-related rights (such as the aggregation of related investor capital in the calculation of the Withdrawal Fees, and limitations on mandatory withdrawals from a Private Fund); a reduction or rebate in the management fee or incentive fee; confirmation of reporting and notice rights that are generally provided to Private Fund investors; rights to receive risk aggregation reports from third parties regarding the Private Fund’s portfolio; representations and warranties by the General Partner and Whitebox; and such other rights as may be negotiated by the Private Fund and such Private Fund investors. The modifications may, among other things, be based on the size of the Private Fund investor’s investment in the Private Fund or affiliated investment entity, an agreement by a Private Fund investor to maintain such investment in



the Private Fund for a significant period of time, or other similar commitment by a Private Fund investor to the Private Fund. Any information or data in any report or notice provided to side letter recipients may be available to any other Private Fund investor upon request, or available from third parties at the expense of the requesting Private Fund investor. In addition, Whitebox has entered into an agreement with a Private Fund investor which provides such Private Fund investor with the right to invest in certain Private Funds managed by Whitebox up to a specified percentage of the total assets under management of such Private Funds.

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

General Investment Strategy and Methods of Analysis Overview

Whitebox employs qualitative and other analytical screens to seek arbitrage and other opportunities in strategies including, but not limited to, credit, relative value and event. The investment process employed by the Whitebox investment team utilizes four steps or phases with respect to the flow of an investment idea from inception to trade execution as follows: (1) sourcing; (2) evaluation; (3) decision process; and (4) portfolio management. Risk is considered at every stage of this process, from capital allocation to security selection, hedge sizing, and performance review. Risk oversight ties all of these pieces together and results in the production of meaningful risk metrics that are consistent with how the portfolio managers view risk.

Sourcing: The first step in Whitebox's investment process is sourcing investment or trade ideas, most of which begin with the observation of a price anomaly. The investment team typically focuses on arbitrage opportunities between markets and capital structures, using a combination of qualitative and other proprietary research to identify potential mispricings and arbitrage opportunities. Qualitative fundamental analysis research, which emphasizes a bottom-up approach, is combined with analytical screens, which include approaches such as statistical analyses, to source potential investment ideas.

Evaluation: The second step in Whitebox's investment process is evaluating an investment or trade ideas. Positions are evaluated and sized relative to other opportunities based on the answers to the four questions comprising the fourth Whitebox Investment Principle as follows:

- (1) How large is the apparent mispricing?
- (2) What is your level of confidence in the mispricing?
- (3) What is the most efficient hedge?
- (4) What is your level of confidence in the hedge?

The evaluation that results from answers to these questions may involve a number of different analyses such as financial, capital structure, corporate actions, legal outcomes, scenario testing and environmental assessments. The goal of the four questions and the resulting evaluation is to enter positions with perceived favorable asymmetries between risk and reward, selected based on the size of the mispricing and the level of confidence in the mispricing, and sized according to the efficiency of the hedge and the level of confidence in the hedge.

Decision Process: The third step in Whitebox's investment process is the decision, following sourcing and evaluating, whether to execute the trade. If the evaluation of the investment or trade idea suggests that there is a favorable asymmetry between risk and reward and there is a desired balance



between the mispricing, hedging and confidence, the decision is made by the portfolio management team to enter the trade. The positions are sized according to the asymmetry, the mispricing and the hedge. Additional factors considered in the decision to enter the trade and the size of the position are anticipated investment horizon, timing, liquidity, and relativity to other opportunities or existing positions. The decision to exit a position results from a similar analysis, but the decision to exit a trade typically occurs when the perceived asymmetry between risk and reward flattens or is no longer favorable.

Portfolio Management: The fourth step in Whitebox's investment process is portfolio management. Portfolio management and composition is the responsibility of each Whitebox Strategy Head's responsibilities. Portfolio Managers collaborate with each other and Strategy Heads in designing portfolios consistent with investment guidelines and established investment allocation schemes, subject to review by, and oversight of, the Investment Committee (the "Investment Committee"). The Investment Committee of Whitebox is comprised of senior personnel of Whitebox and meets on a periodic basis (generally bi-weekly). The Investment Committee evaluates investment opportunities and idea generation, performs comprehensive risk management reviews, and monitors allocations of capital, investment guidelines and compliance with established risk thresholds. The Investment Committee meetings are a primary forum for the discussion of market opportunities and risks and the generation and evaluation of investment ideas. The agenda topics will normally include items such as the following: (i) review investment performance; (ii) review allocation schemes; (iii) risk management review; (iv) investment opportunities and idea generation; (v) discuss relevant regulatory changes; and (vi) discuss strategy outlook and views on market conditions.

The Adviser's in-house research efforts utilize primarily qualitative approaches. Other approaches include multi-factor screens, statistical analyses, discounted cash flow modeling, and comparable company analyses to identify potential opportunities. Other research methods use a broad array of theories and practices available in mathematics, statistics, financial, and operations research. Qualitative approaches include traditional fundamental research, combining company filings, presentations and earnings calls as well as management meetings and industry conferences. The fundamental research emphasizes a bottom-up approach with a focus on a company's cash flow generation, balance sheet quality, and the likelihood of a company's prospects.

External research is also used as a supplement to internally developed analysis, typically to gain deeper insights into industry trends and competitive dynamics.

Investors in a Private Fund should refer to the Confidential Offering Memorandum, Offering Circular and/or constitutional documents of the applicable Private Fund for complete information on that Private Fund's investment strategies, methods of analysis and risks associated with investment in such Private Fund.

Investing in securities involves risk of loss that Clients and/or investors should be prepared to bear. As with any investment, there can be no assurance that the investment objective will be achieved or that an investor will not lose a portion or all of its investment.



Specific Strategies and Methods of Analysis

Open-end and Closed-end Private Funds and Separately Managed Accounts

Relative Value

Relative value investing involves taking simultaneous long and short positions in closely-related markets. This strategy relies on the identification of market inefficiencies, without speculating on the direction of interest rates, currency exchange rates or equity prices, and without assuming an unhedged exposure to any particular market.

- *Convertible Arbitrage.* Convertible arbitrage involves the purchase of an undervalued convertible bond, while hedging with a short position in the underlying equity. The future relationship of the prices of the two securities can be reasonably predicted, and profits are made as the price of the convertible bond converges to its fair value.

- *Credit and Capital Structure Arbitrage.* Credit arbitrage involves the purchase and simultaneous sale of fixed income securities of the same or different issuers, or the arbitrage of bond futures and the underlying bonds. Fixed income arbitrage strategies include basis trading, credit spread trading, calendar spread trading, yield curve arbitrage, inter-market spread trading, and mortgage-backed securities arbitrage. When applied to a capital structure, long and short positions in securities (or their derivatives) are established at different tiers within an issuer's capital structure in ratios designed to maintain a generally neutral overall exposure to the issuer while exploiting a pricing inefficiency. Credit and capital structure arbitrage strategies profit from the disparity in prices between the various related securities in anticipation that over time all tiers and classes will become more efficiently priced relative to one another.

Event Driven

Event-driven investing is a strategy that focuses on the securities of companies undergoing some material structural changes. In some cases, these changes come in the form of mergers, acquisitions, and other transactions.

- *Distressed/High-Yield.* The distressed or high-yield strategy involves investing in the securities of companies experiencing financial or operational difficulties. These securities generally are of below investment grade quality and trade at substantial discounts to par value and, in part, are premised on the need for certain classes of investors to sell low-credit instruments. Profits are made based on two kinds of mispricings: (1) fundamental or intrinsic value, and (2) relative value between comparable securities.

- *Special Situations.* Special situation investing involves the purchase and sale of stocks of companies involved in spin-offs, capital structure reorganizations, liquidations, and other similar corporate restructuring events. This strategy involves seeking profits by taking positions in financial instruments that become mispriced due to these special situations.

Macro

Macro strategies involve taking long and short positions in financial instruments based on a top-down view of economic and capital market conditions. Opportunities are evaluated based on economic factors, industry, sector, and company specific fundamentals, as well as analytical screens. Investments are usually made in a wide variety of instruments including stocks, bonds, currencies, and derivatives. Macro



strategies generally reflect judgments about the expected future price direction of these instruments and are expressed by taking long or short positions in these instruments.

- **Fundamental/Opportunistic.** Macro opportunistic strategies employ a top-down approach to identify long and short investment opportunities, which rely on a wide range of tools to assist in making these judgments, including, but not limited to, relying on instinct and human judgment. Interest rates along with other economic indicators are the main tools used in the research and security selection process.

- **Systematic/Short-term Trading.** Systematic/short-term strategies utilize proprietary computer-based models and trading strategies in seeking to profit from long and short investment opportunities. These strategies usually employ very active, high portfolio turnover trading strategies in order to capture profits from shorter-term trading patterns and trends that emerge from macro-related factors.

- **Commodities.** Commodity strategies involve the purchase and sale of commodity futures and related options contracts based on supply and demand factors affecting pricing within each market. The commodity futures contracts traded may include agricultural commodities (such as corn, oats, wheat and oils), metals (such as gold, silver, copper, platinum and palladium), energy products (such as crude oil, gasoline, heating oil, natural gas, coal and propane), along with equity/bond index and currency futures and commodity-related equities.

Equity

Equity investing involves the purchase and sale of listed equity and equity-related financial instruments based on both quantitative and fundamental research and analysis.

- **Long-Biased Equity.** Long-biased equity investing generally involves the purchase of financial instruments Whitebox believes to be undervalued.

- **Hedged Equity.** Hedged-equity investing involves the purchase of financial instruments that are believed to be undervalued and the short sale of financial instruments that are believed to be overvalued. The hedged-equity strategy seeks to manage market risk by varying levels of long and short exposure.

- **Short Biased Equity.** Short-biased equity investing involves the purchase and short sale of equity and equity-related financial instruments. A short sale involves selling the securities of issuers that are believed to be overvalued based upon an assessment of the prospects of those issuers. A wide range of factors are considered in determining whether a security is overvalued, and a security may be sold short because of a number of factors, including (but not limited to) the following: an issuer has negative cash flows; the security has an exceedingly high market value relative to the value of the assets or the earnings or expected earnings of the issuer; or the issuer is operating at a deficit. Short-biased equity strategies generally will maintain a net short position and maintain higher exposures on the short side relative to the long side.

Collateralized Loan Obligations:

With respect to CLOs, WCM primarily utilizes fundamental analysis to assess the quality of loans by undertaking in-depth financial review of individual issues. WCM combines a fundamental, cash flow



approach with a review of the issuer's capital structure, cash flows and liquidity, among other things. Whitebox's CLO Investment Committee, which is comprised of certain Whitebox Strategy Heads and Portfolio Managers, is ultimately responsible for deciding which investment ideas to implement. The Committee makes these determinations based on current exposures in the portfolio, the market environment and the risk profile of the new position.

SPECIAL CONSIDERATIONS AND RISK FACTORS

There are various substantial risks associated with an investment in the Private Funds or Separately Managed Accounts. There are many market-related and other factors--some of which cannot be anticipated--that could cause a Client or fund investor to lose a major portion or all of its investment or prevent the applicable Client Account from generating profits. No person should invest in the Private Funds (open-end, closed-end or CLO) or open a Separately Managed Account unless fully able, financially and otherwise, to bear such a loss, and unless it has the background and experience to understand thoroughly the risks of investment. For additional risk factors and considerations and specific information about the risks and considerations relevant to a particular Private Fund see the respective fund's Confidential Offering Memorandum and/or constitutional documents. For additional risk factors and considerations relevant to the CLO, see the respective CLO's Offering Circular and/or constitutional documents. Unless the context requires otherwise, references below to "Whitebox" may also include WCM.

The returns realized under each Client Account's investment strategy will be affected by many factors, including, but not limited to, the following:

General Risk Factors

No Guarantee of Investment Performance. The Adviser cannot guarantee that a given Client Account will achieve its stated investment objective or achieve positive or competitive investment returns. The Adviser cannot control market, regulatory, and other factors which may affect the performance of Accounts. Clients and/or fund investors bear the risk that they could lose a portion or all of their investment.

Reliance on Key Investment Personnel; Passive Investment. Each Client Account is managed exclusively by the Adviser (or, in the case of certain Private Funds, a Relying Adviser). Each Client Account's future profitability will in large measure depend upon the business and investment acumen of key investment personnel of the Adviser and its affiliates. Should anything happen to key investment personnel of the Adviser or its affiliates, the business and results of operations of each Client's Account may be adversely affected.

Effects of Health Crises and Other Catastrophic Events. Health crises, such as pandemic and epidemic diseases, as well as other catastrophes that interrupt the expected course of events, such as natural disasters, war or civil disturbance, acts of terrorism, power outages and other unforeseeable and external events, and the public response to or fear of such diseases or events, have and may in the future have an adverse effect on clients' investments and the Adviser's operations. For example, any preventative or protective actions that governments may take in respect of such diseases or events may result in periods of business disruption, inability to obtain raw materials, supplies and component parts, and reduced or disrupted operations for client portfolio companies. In addition, under such circumstances the operations, including functions such as trading and valuation, of the Adviser and other service providers could be reduced, delayed, suspended or otherwise disrupted. Further, the occurrence



and pendency of such diseases or events could adversely affect the economies and financial markets either in specific countries or worldwide.

Market Disruption and Geopolitical Risk. Client accounts are subject to the risk that war, terrorism and related geopolitical events may lead to increased short-term market volatility and have adverse long-term effects on the U.S. and world economies and markets generally, as well as adverse effects on issuers of securities and the value of clients' investments. War, terrorism and related geopolitical events have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and non-U.S. economies and markets generally. Those events as well as other changes in U.S. and non-U.S. economic and political conditions also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment, and other factors affecting the value of the Funds' investments. At such times, clients' exposure to risk can increase.

No Market for Shares/Interests – Open-end Funds. Although the shares/interests of the Private Funds that are categorized as open-end funds may be redeemed on a periodic basis (unlike shares/interests in the closed-end funds which may not be redeemed periodically), the shares/interests may not be assigned, pledged or otherwise transferred without prior written consent. There is no market for the shares/interests and none is expected to develop. Shares/interests will not be registered under the securities law of any jurisdiction and will be subject to strict restrictions on resale and transferability. Therefore, Private Fund investors must be prepared to bear the risk of their investment for a substantial period of time.

Restrictions on Transferability and Withdrawal – Closed-End Funds. Interests will not be registered under the Securities Act or any state securities laws and may not be transferred unless registered under applicable United States federal and state securities laws or unless an exemption from such laws is available. The Interests are not transferable, divisible or otherwise encumberable, except with the prior written consent of the General Partner which may be withheld in its sole and absolute discretion. In addition, Limited Partners may not make full or partial withdrawals from a Private Fund.

Legal Proceedings. Clients and the Adviser, as independent legal entities, are and in the future may be subject to lawsuits or proceedings by government entities or private parties. Litigation does and will occur in the ordinary course of the management of the investment portfolio of Clients. Certain legal proceedings may result in recoveries for a Client, but the outcome of any legal proceeding is uncertain. The risk of litigation may increase if a Client exercises control or significant influence over a company or invests in restricted or closely-held securities or other assets. Litigation may also arise as a result of defaults, bankruptcies and/or other reasons. Except in the event of a lawsuit or proceeding arising from the Adviser's intentional misconduct, bad faith, fraud, gross negligence, material breach of an Investment Management Agreement or the Adviser's violation of U.S. federal securities law as determined in a final order by a court of competent jurisdiction, expenses or liabilities of a Client arising from any suit shall be borne by the Client. The costs and expenses associated with these legal proceedings impairs the investment performance of a Client.

Service on Boards of Portfolio Companies. As a result of a Client's investment in portfolio companies, a representative of the Adviser will from time to time serve on the board of directors of certain of a Client's portfolio companies or on creditor committees of certain issuers that such Client has invested in. As a consequence, there may be certain restrictions on a Client's ability to purchase or sell securities of such portfolio companies at certain times and such representative of Adviser has and may in the future be sued as a result of their service on such committees or boards for claims of breach of



duty of loyalty, securities claims and other director related claims. In general, Clients will indemnify the General Partner, Adviser and their representatives from such claims.

Investment of New Capital. A Client Account may receive substantial additional investable capital at certain times. It may take the Adviser a significant period of time to appropriately invest any such new investable capital.

Possible Adverse Effect of Large Redemptions. The Adviser's trading strategies could be disrupted by large redemptions or withdrawals. For example, such redemptions or withdrawals could require the Adviser to prematurely liquidate securities positions it had established.

Private Funds - No Trading Guidelines; Changes in Trading Strategies and Instruments. There are typically no restrictions in the governing documents of the Private Funds that are categorized as open-end funds on such matters as the instruments or markets the Adviser or its affiliates may trade for the Private Funds, the strategies it may use, the amount of leverage it may employ or the amount of portfolio diversification it must maintain. The trading strategies employed by the Adviser and its affiliates are continually developing. The Adviser and its affiliates are free (without notifying investors) to make changes in trading strategies and to trade new instruments or markets.

Non-Diversification and Sector Concentration. Client investment portfolios may be concentrated in a limited number of issuers or market sectors. Non-diversification among issuers involves an increased risk of loss to an Account if the market value of a security or issuer should decline. If the Adviser concentrates a specific Account's investments in a market sector, financial, economic, business, and other developments affecting issuers in that sector will have a greater effect on that Account than if the Adviser had not concentrated its assets in that sector.

High Portfolio Turnover. Certain of the strategies employed by the Adviser are expected to lead to frequent changes in certain Client Accounts investment portfolios. Higher portfolio turnover generally involves additional expense to an Account, including brokerage commissions, dealer mark-ups and other transaction costs on the sale of securities and reinvestment in other securities.

Private Funds - Absence of Regulatory Oversight. While the Private Funds may be considered similar to an investment company, the Private Funds do not intend to register as such under the Investment Company Act, in reliance upon an exemption available to privately offered investment companies. Accordingly, the provisions of the Investment Company Act (which, among other matters, requires investment companies to have a board of directors or trustees comprised in part of disinterested persons, requires securities to be held in segregated custody accounts, and closely regulates the relationship between the investment company and its investment adviser) will not be applicable to the Private Funds.

Substantial Charges to the Private Funds. The Private Funds are subject to substantial expenses, regardless of whether a Private Fund generates any profits. The Private Funds will be required to make substantial profits to avoid depletion of its assets from these charges. Certain of the Private Funds' "master feeder" structure subjects those Private Funds to a higher expense/equity ratio than many other investment funds.

Operational and Human Error. Success of the Adviser's various strategies depends in part upon the accurate calculation of price relationships, the communication of precise trading instructions and ongoing position evaluations. In addition, the Adviser's strategies require active,



ongoing management and dynamic adjustments to the investment portfolio. There is the possibility that, through human error, oversight or operational weaknesses, mistakes could occur in this process and lead to significant trading losses.

Institutional Risk. The institutions, including brokerage firms and banks, with which the Client Accounts (directly or indirectly) do business, or to which securities have been entrusted for custodial purposes, may encounter financial difficulties that impair the operational capabilities or the capital position of the Client Accounts.

Cybersecurity Breaches and Identity Theft. The information and technology systems of the Adviser and of key service providers may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although the Adviser has implemented various measures designed to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, it may be necessary for the Adviser to make a significant investment to fix or replace them and to seek to remedy the effect of such issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the operations of the Adviser or its management of Client Accounts and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information.

Liability Resulting from Investing Through Commingled Special Purpose Vehicles. Whitebox has and may establish special purpose vehicles to hold Fund investments. Holding investments through special purpose vehicles exposes a Private Fund to risks not present in direct investments, particularly when a Private Fund participates in a special purpose vehicle in conjunction with third parties. In certain circumstances, depending on the jurisdiction of organization, applicable tax treaties and other tax, legal or business considerations, special purpose vehicles through which multiple Client AccountClient Accounts of Whitebox make investments may not provide for complete segregation of assets and liabilities. Accordingly, if any of the other Client AccountClient Accounts are unable to meet all of their respective obligations to the underlying investment in which they hold an interest through a special purpose vehicle, a Private Fund, may be adversely affected.

Indemnification Risk. The Private Funds indemnify the Adviser, its affiliates, and the Private Funds' third-party administrator (and their respective principals, agents and affiliates), and directors (with respect to offshore Private Funds), against certain losses and expenses they might incur in acting for the Private Fund. Such obligations could require the Private Fund to pay considerable sums to those persons.

Cross-Class Liability – Offshore Private Funds. Although each class of shares of offshore Private Funds will be maintained by the applicable Private Fund separately with separate accounting records and with the subscription(s) (and investments made therewith) kept in segregated accounts, a Private Fund as a whole, including any subsequently issued separate classes, is one legal entity. Thus all of the assets of the Private Fund are available to meet all of the liabilities of the Private Fund, regardless of the class to which such assets or liabilities are attributable. In practice, cross-class liability will usually only arise where a class becomes insolvent and is unable to meet all of its liabilities. In this case, all of the assets of a Private Fund attributable to other classes may be applied to cover the liabilities of any



insolvent class. A liquidator of a Private Fund, however, may not always comply with or enforce the segregation of assets attributable to each class.

Changing Regulatory Environment. The U.S. and international regulatory environment for investment funds is evolving, and changes in regulation could occur that may adversely affect Client Accounts and their investment results, or some or all of the investors. Client Accounts may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, the U.S. Commodity Futures Trading Commission, the U.S. Internal Revenue Service, the European Union (such as the Alternative Investment Fund Managers Directive (Directive (2011/61/EU), or other U.S. or applicable non-U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets). Client Accounts or investors also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could be more difficult and expensive, and may affect the manner in which the Client Accounts conduct business. New laws or regulations may also subject Client Accounts or investors to new or increased taxes or other costs.

Exposure to Material Non-Public Information: From time to time, Whitebox and/or its affiliates may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, all Client Accounts may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

Investments Longer than Term. With respect to closed-end funds, the Adviser may make investments which may not be advantageously disposed of prior to the date the closed-end fund is dissolved, either by expiration of the closed-end fund's term or otherwise. Although Whitebox expects that closed-end fund investments will be disposed of prior to the fund's dissolution and the General Partner has a limited ability to extend the term of the fund, the closed-end fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. In addition, although upon the dissolution of the closed-end fund, the General Partner (or the relevant liquidator) will seek to use its best efforts to reduce to cash and cash equivalents such assets of the fund as the General Partner or such liquidator shall deem it advisable to sell, subject to obtaining fair value for such assets and any tax or other legal considerations, there can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to the Limited Partners will occur.

Diverse Membership. The investors in each Private Fund may include investors that have conflicting investment, tax and other interests with respect to their investments in that Private Fund. The conflicting interests among the investors may relate to or arise from, among other things, the nature of investments made by a Private Fund, the structuring of the acquisition of investments and the timing of the disposition of investments, as well as the structure of the Private Fund. As a consequence, conflicts of interest may arise in connection with decisions made by Whitebox, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for the Private Fund, Whitebox will consider the investment and tax objectives of the Private Fund and the investors as a whole, not the investment, tax or other objectives of any



investor individually. Additional conflicts may arise with respect to decisions of the Oversight Committee or votes of the Limited Partners to the extent representatives of the Oversight Committee or interests of a Client Account or its investors may differ.

ERISA – Certain Private Funds. It is anticipated that, at various times, the assets of certain Private Funds may be deemed to be “plan assets” subject to Title I of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”). During these periods, the Adviser will be a fiduciary with respect to plans or accounts subject to Title I of ERISA and/or Section 4975 of the Code investing in the Private Fund directly or indirectly through a “Benefit Plan Investor” and will be prohibited from causing the Private Fund to engage in certain transactions. While the Adviser believes that it can effect the applicable Private Fund’s investment strategies utilizing various statutory and class exemptions to ERISA’s prohibited transaction regime, there may be particular transactions which ERISA and/or the Code will prevent the Private Fund from entering into or investments which the Private Fund must sell before it might otherwise do so.

Market and Strategy Risk Factors

Investment Competition. The market for some types of securities is highly competitive. The Client Accounts will be competing for investment opportunities with a significant number of financial institutions, private funds, as well as various institutional investors. Many of these competitors are larger and have greater financial, human and other resources than the Adviser and may in certain circumstances have a competitive advantage. As a result of this competition, there may be fewer attractively priced investment opportunities, which could have an adverse impact on the ability of the Client Accounts to meet investment objectives or the length of time that is required for a Client Account to become fully invested. There can be no assurance that the returns on a Client Account’s investments will be commensurate with the risk of investment in a Client Account.

General Economic Conditions: The Client Accounts and the companies in which the Client Accounts invest are typically adversely affected by deteriorations in the financial markets and economic conditions throughout the world, some of which magnify the risks described herein and have other adverse effects. Deteriorating market conditions could result in increasing volatility and illiquidity in the global credit, debt and equity markets generally. The duration and ultimate effect of recent market conditions cannot be forecast, nor is it known whether or the degree to which such conditions will remain stable or worsen. Deteriorating market conditions and uncertainty regarding economic markets generally could result in declines in the market values of potential investments or declines in the market values of investments after they are made or acquired by Client Accounts. It would be expected that such declines will be exacerbated by other events, such as the failure of significant financial institutions or investment funds, dislocations in other investment markets or other extrinsic events. In addition, such declines could lead to weakened investment opportunities for Client Accounts, could prevent a Client Account from successfully meeting its investment objectives and/or could require a Client Account to dispose of investments at a loss while such unfavorable market conditions prevail.

Volatility of Securities Markets. Securities prices may be volatile, and securities price movements are influenced by many unpredictable factors.

Structured Finance Securities. A Client Account may invest in structured finance securities such as, for example, collateralized loan obligations, collateralized debt obligations, collateralized bond



obligations or similar instruments. Structured finance securities may present risks similar to those of the other types of investments in which a Client Account may invest and, in fact, these 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. Moreover, a rapid change in the rate of defaults may have a material adverse effect on the yield to maturity. It is therefore possible that a Client Account may incur losses on its investments in structured products regardless of their ratings by the ratings agencies. Additionally, the securities in which Whitebox is authorized to invest include securities that are subject to legal or contractual restrictions on their resale or for which there is a relatively inactive trading market. Securities subject to resale restrictions may sell at a price lower than similar securities that are not subject to these restrictions.

Residential Mortgage-Backed Securities. Investing in residential mortgage-backed securities involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk) and certain additional risks and special considerations (including the risk of principal prepayment and the risk of investing in real estate). Residential mortgage-backed securities generally provide for the payment of interest or principal (or both) on the mortgage-backed securities on a frequent basis and there also exists the possibility that principal may be prepaid at any time due to, among other reasons, prepayments on the underlying mortgage loans. As a result of prepayments, a Client Account may be required to reinvest assets at an inopportune time, which may expose a Client Account to a lower rate of return. The rate of prepayments on underlying mortgages affects the price and volatility of a residential mortgage-backed security, and may have the effect of shortening or extending the effective maturity beyond what was anticipated. Finally, the risks of investing in such instruments reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the ability of tenants to make payments, and the ability to attract and retain tenants.

Securities of Smaller Companies and Issuers. Small companies may offer greater opportunities for capital appreciation than larger companies, but investments in such companies may involve certain special risks. Securities issued by small companies or issuers may be collateralized, however making an actual foreclosure on and subsequent sale of these assets may be lengthy and inefficient. Small companies may have limited product lines, markets, or financial resources and may be dependent on a limited management group. While the markets in securities of such companies have grown rapidly in recent years, such securities may trade less frequently and in smaller volume than more widely held securities. The values of these securities may fluctuate more sharply than those of other securities, and the Adviser may experience some difficulty in establishing or closing out positions in these securities at prevailing market prices. There may be less publicly available information about the issuers of these securities or less market interest in such securities than in the case of larger companies and it may take a longer period of time for the prices of such securities to reflect the full value of their issuers' underlying earnings potential or assets.

Illiquid Securities. Illiquid investment may be difficult to readily dispose of in the ordinary course of business. In addition, illiquid investments may not have an established trading market. In



the absence of an established trading market, the Adviser will, in accordance with its valuation policies then in effect value such investments in good faith. Accordingly, the valuation of such securities may be based in significant part on the valuations determined by the Adviser and its agents without reference to an established market for such investments. During any period when the assets of a Private Fund are deemed to be “plan assets” for purposes of Title I of ERISA, all valuations will be based on independent pricing sources.

Convertible Securities. The Adviser may invest the assets of certain Client Accounts, without limitation, in convertible securities, including non-investment grade convertible securities. A convertible security (a bond or preferred stock) may be converted at a stated price within a specified period of time into a certain quantity of the common stock of the same or a different issuer. Convertible securities are senior to common stock in an issuer’s capital structure, but are usually subordinated to similar non-convertible securities. While providing a fixed income stream (generally higher in yield than the income from common stocks but lower than that afforded by a similar non-convertible security), a convertible security also affords an investor the opportunity, through its conversion feature, to participate in the capital appreciation of the issuer’s common stock. The Adviser may choose to isolate the debt aspect of a convertible bond by taking a hedging or arbitrage position in the underlying common stock.

Debt Securities. The Adviser may invest the assets of certain Client Accounts in debt securities, including debt securities rated lower than “investment grade” - debt securities rated lower than Baa by Moody’s Investors Service, Inc. (“Moody’s”), or lower than BBB or higher by Standard & Poor’s Corporation (“S&P”), or if unrated that are judged by the Adviser to be of comparable quality. Non-investment grade debt securities (sometimes referred to as “junk bonds”) are considered speculative and may be in poor credit standing or even in default as to payments of principal or interest. Moreover, such securities generally are less liquid than investment grade debt securities.

Trade Receivables and Bank Loans. The Adviser may invest the assets of certain Client Accounts in trade receivables of operating companies as well as bank loans. Like privately issued securities, such instruments are typically difficult to value and may be highly illiquid. Moreover, such instruments are typically in default, and collection on such instruments may be through a lead bank acting as servicer for all participant lenders (in the case of bank loans) or through bankruptcy or other formal or informal collection proceedings. Although trade receivables and bank loans are typically available at substantial discounts to their face values, investments in such instruments should be considered highly speculative.

Operating and Financial Risks of Companies: Companies in which the Client Accounts invest often face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities, or a larger number of qualified managerial and technical personnel. As a result, portfolio companies which Whitebox expects to be stable at times will (i) operate at a loss or have significant variations in operating results, (ii) require substantial additional capital to support their operations or to maintain their competitive position or (iii) experience financial distress. Portfolio companies often issue certain types of debt, such as mezzanine or high yield, in connection with leveraged acquisitions or recapitalizations in which the portfolio company incurs a substantially higher amount of indebtedness than the level at which it had previously operated.



Financially Troubled Companies: Client Accounts make investments that may become distressed due to factors outside the control of Whitebox. There is no assurance that there will be sufficient collateral to cover the value of the loans and/or other investments purchased by a Client Account or that there will be a successful reorganization or similar action of the company or investment which becomes distressed. In any reorganization or liquidation proceeding relating to a company in which a Client Account invests, a Client Account is in a position to lose its entire investment, to be required to accept cash or securities with a value less than a Client Account's original investment and/or to be required to accept payment over an extended period of time. Under these circumstances, the returns generated from a Client Account's investments will likely not compensate the investors in the Client Accounts adequately for the risks assumed. Additionally, under certain circumstances, a lender who has inappropriately exercised control of the management and policies of a debtor will generally either have its claims subordinated, or disallowed, or be found liable for damage suffered by parties as a result of such actions. Under circumstances involving a portfolio company's insolvency, payments to a Client Account and distributions by a Client Account to its investors are likely to be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Troubled company investments require active monitoring and, at times, require significant participation in business strategy or reorganization proceedings by Whitebox. In addition, involvement by Whitebox in a company's reorganization proceedings could result in the imposition of restrictions limiting a Client Account's ability to liquidate its position in the company.

Zero-Coupon Securities. The Adviser may invest the assets of certain Client Accounts in zero-coupon securities. Zero-coupon securities are debt obligations which are generally issued at a discount and payable in full at maturity, and which do not provide for current payments of interest prior to maturity. Zero-coupon securities usually trade at a deep discount from their face or par value and are subject to greater market value fluctuations from changing interest rates than debt obligations of comparable maturities which make current distributions of interest. When debt obligations have been stripped of their unmatured interest coupons by the holder, the stripped coupons are sold separately. The principal is sold at a deep discount because the buyer receives only the right to receive a future fixed payment on the security and does not receive any rights to periodic cash interest payments. Once stripped or separated, the principal and coupons may be sold separately. Typically, the coupons are sold separately or grouped with other coupons with like maturity dates and sold in such bundled form. Purchasers of stripped obligations acquire, in effect, discount obligations that are economically identical to the zero-coupon securities issued directly by the obligor.

Private Placements. The Adviser may invest the assets of certain Client Accounts in privately issued securities that are subject to legal or contractual resale restrictions. The Adviser may be unable to publicly sell these securities unless they are registered under applicable securities laws, or unless a registration exemption is available. Such securities are also typically difficult to value. For these reasons, disposition of privately issued securities may be difficult and may require a lengthy period of time. Moreover, the issuers of such securities typically are early-stage companies which may lack management depth and sufficient financial resources, which may be marketing a new product for which there is no established market, or which may be subject to intense competition from larger, more established companies. The Adviser may be asked to make "follow-on" investments in private issuers in order to provide the issuer with needed capital. However, there can be no



assurance that the Adviser will be able to make any such follow-on investments, and that inability could impact the ability of the Adviser to recover, or to realize a meaningful return on its investment.

Private Investment in Public Equity (“PIPEs”). The Adviser may invest the assets of certain Client Accounts in PIPEs. PIPEs are private (unregistered) offerings of common stock or other equity securities, usually at a discount to current market price, issued by public companies. The typical PIPE is subject to a “lockup” agreement that prohibits the owner from reselling the PIPE security until it is registered or until a designated holding period has elapsed. On occasion, the SEC has refused to allow PIPE securities to be registered due to the immediate impact such registration could have on the public market for such securities (for example, if certain owners of such PIPEs have sold the securities short in anticipation of their registration). Typically, PIPE securities are offered by small public companies, companies in need of regular cash infusions, companies in financial distress or companies where a public offering has failed. While PIPE financings have become very popular, PIPE securities may be susceptible to special risks that may not be present in the same company’s publicly traded securities. Substantial illiquidity could remain even after a PIPE security becomes registered for public sale. Moreover, the Master Fund’s entire investment in PIPE securities may be lost if they never become registered.

Derivatives. The Adviser may use derivatives, such as options, futures and swaps in certain Client Accounts. There are uncertainties as to how the derivatives market will perform during periods of unusual price volatility or instability, market illiquidity or credit distress. Substantial risks are also involved in borrowing and lending against derivatives. Derivatives prices can be volatile, market movements are difficult to predict and financing sources and related interest rates are subject to rapid change. One or more markets may move against the derivatives positions held by a Client Account, thereby causing substantial losses. Most of these instruments are not traded on exchanges but rather through an informal network of banks and dealers who have no obligation to make markets in them and can apply essentially discretionary margin and credit requirements (and thus in effect force the Adviser or its affiliates to close out positions). In addition, some derivatives carry the additional risk of failure to perform by the counterparty to the transaction. Many unforeseeable events, such as government policies, can have profound effects on interest and exchange rates, which in turn can have large and sudden effects on prices of derivative instruments.

Non-Investment Grade Convertible Securities. The Adviser may invest the assets of certain Client Accounts in “non-investment grade” convertible securities. Non-investment grade convertible securities are considered speculative and may be in poor credit standing or even in default as to payments of principal or interest. Moreover, such securities generally are less liquid than investment grade securities.

Foreign Securities. The Adviser may invest the assets of certain Client Accounts in American Depositary Receipts (“ADRs”), which are U.S. dollar-denominated equity and debt securities of foreign issuers or directly in foreign securities. Interest or dividend payments on such securities may be subject to foreign withholding taxes. Investments in foreign securities involve considerations and risks not typically associated with investments in securities of domestic companies, including possible unfavorable changes in currency exchange rates, reduced and less reliable information about issuers and markets, different accounting standards, illiquidity of securities and markets, local economic or political instability and greater market risk in general.



Litigation: From time to time, in the ordinary course of their operations, Whitebox and its affiliates may be subject to litigation and arbitration, which can be costly and divert significant portions of available staff time and resources. In addition, a Whitebox's investment activities may subject it to the risks of becoming involved in litigation by third parties. This risk may be greater where Whitebox exercises control or significant influence over a company's direction. The expense of defending claims against a Client Account by third parties, including bankruptcy or insolvency proceedings, and paying any amounts pursuant to settlements or judgments would, except in the unlikely event that the Client Account is indemnified for such amounts, be borne by the CLO and would reduce the funds available for distribution and the Client Account's net assets. There can be no assurance that any such litigation, once begun, would be resolved in favor of the applicable Client Account. Any litigation or arbitration could have a materially adverse effect on the involved Client Account.

Whitebox may participate in creditors' committees with respect to the bankruptcy, restructuring or work out of issuers of collateral obligations. In such circumstances, Whitebox may take positions on behalf of a Client Account that are adverse to the interests of another Client Account. Whitebox may be entitled to receive steering committee fees associated with a bankruptcy, restructuring or work out (except any fees received in connection with the extension of the maturity of a defaulted obligation or a reduction in the outstanding principal balance of a defaulted obligation) received in connection with the work out or restructuring of any defaulted obligations.

The funds available to a Client Account to pay certain fees and operating expenses are limited by restrictions governing the Client Accounts priority of payments to pay for such fees and expenses. If such funds are not sufficient to pay the expenses incurred by the Client Account, the ability of the Client Account to operate effectively may be impaired, and the Client Account may not be able to defend or prosecute legal proceedings that may be brought against it or that the Client Account might otherwise bring to protect its interests. In addition, service providers of a CLO that are not paid in full, may have the right to resign. This could ultimately lead to the Client Account being in default under applicable law.

Reliance on Corporate Management and Financial Reporting: Whitebox relies on the financial information made available by the issuers in which Client Accounts invest. Whitebox does not independently verify the financial information disseminated by the numerous issuers in which Client Accounts may invest and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general. Corporate mismanagement, fraud and accounting irregularities relating to the issuers of investments held by Client Accounts may result in material losses.

Loan Participations and Assignments: Whitebox invest in fixed- and floating-rate loans, which investments generally are in the form of loan participations and assignments of portions of such loans. Participations and assignments involve credit risk, interest rate risk, liquidity risk, and the risks of being a lender. Participations in commercial loans may be secured or unsecured. Loan participations typically represent direct participation in a loan to a corporate borrower, and generally are offered by banks, other financial institutions, or lending syndicates. Whitebox may invest in funded term loans through participations and assignments. When purchasing loan participations, a Client Account assumes the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary, and may only be able to enforce its rights through the lender, and may assume the credit risk of the lender in addition to



the borrower. The participation interests in which Whitebox invests may not be rated by any nationally recognized rating service.

Investments in loans through a direct assignment of a financial institution's interests with respect to the loan may involve additional risks to a Client Account. For example, if a loan is foreclosed, a Client Account could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that, under emerging legal theories of lender liability, a Client Account could be held liable as a co-lender. It is unclear whether loans and other forms of direct indebtedness offer securities laws protections against fraud and misrepresentation. In the absence of definitive regulatory guidance, a Client Account relies on Whitebox's research in an attempt to avoid situations where fraud or misrepresentation could adversely affect the Client Account.

Senior Secured Loans, Secured Senior Bonds, High Yield Bonds and Mezzanine Obligations: Whitebox invests in (without limitation) secured senior loans, secured senior bonds, mezzanine obligations, high yield bonds and unsecured senior obligations. Such instruments are of a type generally incurred by the obligors thereunder in connection with highly leveraged transactions, often (although not exclusively) to finance internal growth, pay dividends or other distributions to the equity holders in the obligor, or finance acquisitions, mergers, and/or share purchases. As a result of the additional debt incurred by the obligor in the course of such a transaction, the obligor's creditworthiness is typically judged by the rating agencies to be below investment grade.

Secured senior loans, secured senior bonds and unsecured senior obligations are typically at the most senior level of the capital structure with mezzanine obligations being subordinated to any senior loans or to any other senior debt of the obligor.

Mezzanine obligations take the form of medium term loans or obligations of such type repayable shortly (perhaps six months or one year) after the senior loans or obligations of the obligor thereunder are repaid. Because mezzanine obligations are only repayable after the senior debt (and interest payments may be blocked to protect the position of senior debt interest in certain circumstances), they will carry a higher rate of interest to reflect the greater risk of such an obligation not being repaid. Due to the greater risk associated with mezzanine obligations as a result of their subordination below senior loans of the obligor, mezzanine lenders may be granted share options, warrants or higher cash paying instruments or payment in kind in the obligor which can be exercised in certain circumstances, principally being immediately prior to the obligor's shares being sold or floated in an initial public offering.

Although any debt instrument may share many similar features with other loans and obligations of its type, the actual terms will have been a matter of negotiation and will be unique. Any such particular loan or security may contain non-standard terms and may provide less protection for creditors than may be expected generally, including in respect of covenants, events of default, security or guarantees.

Cov-Lite Loans: Whitebox invests in (without limitation) cov-lite loans, and the ownership thereof may expose a Client Account to greater risks (including with respect to liquidity, price volatility and ability to restructure loans) than is the case with loans that have maintenance covenants. In addition, the lack of maintenance covenants in co-lite loans may make it more difficult for lenders to trigger a default in respect of such collateral obligations. This makes it more likely that



any default will only arise under a cov-lite loan at a stage where the relevant obligor is in a greater degree of financial distress. Such a delay in the occurrence of a default may make any successful restructuring more difficult to achieve and/or result in a greater reduction in the value of the cov-lite loan as a consequence of any restructuring effected in such circumstances.

Security: Secured senior loans and secured senior bonds are often secured by specific collateral, including but not limited to, trademarks, patents, accounts receivable, inventory, equipment, buildings, real estate, franchises and common and preferred shares of the obligor and its subsidiaries and any applicable associated liens relating thereto. In continental Europe, security is often limited to shares in certain group companies, accounts receivable, bank account balances and intellectual property rights.

Mezzanine obligations may have the benefit of a second priority charge over such collateral obligations. Unsecured senior obligations do not have the benefit of such security. High yield bonds are also generally unsecured.

Secured senior loans and secured senior bonds usually have shorter terms than more junior obligations and often require mandatory prepayments from excess cash flows, asset dispositions and offerings of debt and/or equity securities.

Second Lien Loans: A Client Account's collateral obligations may include second lien loans, each of which will be secured by collateral, but which is subordinated (with respect to liquidation preferences with respect to pledged collateral) to other secured obligations of the obligors secured by all or a portion of the collateral securing such secured loan. Second lien loans are typically subject to intercreditor arrangements, the provisions of which may prohibit or restrict the ability of the holder of a second lien loan to (i) exercise remedies against the collateral with respect to their second liens; (ii) challenge any exercise of remedies against the collateral by the first lien lenders with respect to their first liens; (iii) challenge the enforceability or priority of the first liens on the collateral; and (iv) exercise certain other secured creditor rights, both before and during a bankruptcy of the borrower. In addition, during a bankruptcy of the obligor, the holder of a second lien loan may be required to give advance consent to (a) any use of cash collateral approved by the first lien creditors; (b) sales of collateral approved by the first lien lenders and the bankruptcy court, so long as the second liens continue to attach to the sale proceeds; and (c) "debtor-in-possession" financings. Liens arising by operation of law may take priority over the Client Accounts' liens on an obligor's underlying collateral and may impair the Client Accounts' recovery on a collateral obligation if a default or foreclosure on that collateral obligation occurs.

An example of a lien arising under law is a tax or other government lien on property of an obligor. A tax lien may have priority over a Client Account's lien on such collateral. To the extent that a lien having priority over a Client Account's lien exists with respect to the collateral related to any collateral obligation, the Client Account's interest in the asset will be subordinate to such lien. If the creditor holding such lien exercises its remedies, it is possible that, after such creditor is repaid, sufficient cash proceeds from the underlying collateral will not be available to pay the outstanding principal amount of such collateral obligation.

Corporate Rescue Loans: Corporate rescue loans are made to companies that have experienced, or are experiencing, significant financial or business difficulties such that they have become subject to bankruptcy or other reorganization and liquidation proceedings and thus involves



additional risks. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that Whitebox will correctly evaluate the value of the assets securing a corporate rescue loan or the prospects for a successful reorganization or similar action, and accordingly a Client Account could suffer significant losses on its investments in such corporate rescue loan. In any reorganization or liquidation case relating to a company in which a Client Account invests, such Client Account may lose its entire investment, may be required to accept cash or securities with a value less than its original investment and/or may be required to accept payment over an extended period of time.

Distressed company and other asset-based investments require active monitoring and may, at times, require participation by a Client Account in business strategy or bankruptcy proceedings. To the extent that a Client Account becomes involved in such proceedings, such Client Account's more active participation in the affairs of the bankruptcy debtor could result in the imposition of restrictions limiting the Client Account's ability to liquidate its position in the debtor.

Although a corporate rescue loan may be unsecured, where the obligor is subject to U.S. insolvency law, it has a priority permitted by section 364(c) or section 364(d) under the United States Bankruptcy Code, and at the time that it is acquired by the Client Account is required to be current with respect to scheduled payments of interest and principal (if any).

Currency Risks. Although Client Account assets will normally be invested in and receive any returns on such investment in U.S. Dollars, a Client's assets may be invested in securities and other financial instruments denominated in other currencies. Even if the trading of funds may be profitable in such currencies, such profits may be reduced or eliminated, or the underlying funds could experience losses, because of adverse currency fluctuations between the U.S. Dollars and the denominated currencies of the instruments it trades. The Adviser may attempt to mitigate the risks associated with currency fluctuations at times by entering into, when available, forward or options contracts or by the purchase or sale of foreign currencies in connection with the acquisition, holding or disposition of investments, but is not obligated to do so. In addition, a Client's investments may be adversely affected by the imposition of unfavorable mandatory exchange rates with respect to, or other limitations or prohibitions on, the exchange or repatriation of currencies in which the Client Account holds positions or in which securities or other investments of the Client Account are denominated.

Securities Believed to Be Undervalued or Incorrectly Valued. Securities which the Adviser or an affiliate believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the timeframe the Adviser or the affiliate anticipates. As a result, a Client Account may lose all or substantially all of its investment in any particular instance. With respect to certain Client Accounts, there is no minimum credit standard that is a prerequisite to the Client Account's investment in any instrument, and some obligations and preferred stock in which certain Client Accounts invest will be less than investment grade.

Swaps. Swap agreements are typically two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to many years. In a standard "swap" transaction, two parties agree to exchange the returns (or the differential in rates of return) earned or realized on particular predetermined investments, instruments or indices. A Client Account will not have any direct ownership of the underlying investments, and the Client does not have any rights



of ownership or other rights to the underlying investments, either directly or indirectly. The gross returns to be exchanged or “swapped” between the parties are generally calculated with respect to a “notional amount.” Swap transactions may be highly illiquid. Moreover, the Client bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Adviser’s ability to terminate existing swap transactions or to realize amounts to be received under such transactions.

Credit Default Swaps. The Adviser may invest the assets of certain Client Accounts in credit default swaps. A credit default swap is a contract between two parties which transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. In essence, an institution which owns corporate debt instruments can purchase a limited form of default protection by entering into a credit default swap with another bank, broker-dealer or financial intermediary. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty and receiving a payment of par value, or (ii) by the parties pairing off payments, with the purchaser of the protection receiving a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default. The first way is the more common form of credit default swap termination.

In the manner described above, credit default swaps can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. In addition, credit default swaps can be used to implement the Adviser’s or an affiliate’s view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, the Adviser may “write” credit default protection in which it receives spread income. The Adviser may also “purchase” credit default protection even in the case in which it does not own the referenced instrument if, in the judgment of the Adviser or an affiliate, there is a high likelihood of credit deterioration.

The credit default swap market in high yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock, and potential loss upon default, among other factors. As such, there are many factors upon which market participants may have divergent views. If the Adviser or an affiliate has a positive view of a company’s credit outlook, it may enter into credit default swap transactions in which it assumes the risk of default of an issuer. It may also enter into an opposite transaction, even if the credit outlook is positive, if it believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap.

Futures Contracts. The Adviser or its affiliates may invest the assets of certain Client Accounts in futures contracts in managing a Client investment portfolio. Futures contracts are exchange-traded contracts that provide for the future delivery of various commodities, currencies or financial instruments at a specified time and place. Contractual obligations, depending on whether one is a buyer or a seller, may be satisfied either by taking or making physical delivery of the applicable commodity, or as often happens in financial futures, by cash settlement. Futures obligations may also be satisfied by making an offsetting sale or purchase of an equivalent futures contract on the same exchange prior to the designated delivery date. Most financial futures contracts are settled in this manner.



Futures contracts are customarily bought and sold on margins which range upward from less than two percent of the purchase price of the contract being traded. Because of these low margins, price fluctuations occurring in futures markets may create relative profits and losses which are greater than in other forms of investment. Margin is the minimum amount of funds which must be deposited by the futures trader with its broker in order to initiate futures trading or to maintain the trader's open positions in futures contracts. When the market value of a particular open futures position changes to a point where the margin on deposit does not satisfy maintenance margin requirements, a margin call will be made. If the margin call is not met within a reasonable time, the broker may close out the position.

Exchanges on which futures are traded may have the right to suspend or limit trading in the commodities that they list. Such a suspension or limitation could render it impossible for the Master Fund to liquidate its positions and thereby expose it to losses. In addition, there is no guarantee that exchange and other secondary markets will always remain liquid enough for the Adviser or an affiliate to close out existing futures positions.

Futures exchanges may limit fluctuations in futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." During a single trading day, no trades may be executed at prices beyond the daily limit. Once the price of a futures contract for a particular commodity has increased or decreased by an amount equal to the daily limit, positions in the commodity can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices on various commodities or financial instruments occasionally have moved to the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Adviser from promptly liquidating positions in futures or commodity options. To the extent that such positions are unhedged, such occurrences could subject a Client Account to losses.

Bonds and Other Fixed-Income Securities. The Adviser or an affiliate may invest the assets of certain Client Accounts in bonds and other fixed-income securities. The Adviser will invest in these securities when they offer opportunities for capital appreciation and may also invest in these securities for temporary defensive purposes and to maintain liquidity. Fixed-income securities include, among other securities: bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities ("U.S. Government Securities") or by a foreign government; municipal securities; and mortgage-backed and asset-backed securities. These securities may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. Fixed-income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk).

The Adviser may invest in both investment grade and non-investment grade debt securities. Investment grade debt securities are securities that have received a rating from at least one nationally recognized statistical rating organization ("NRSRO") in one of the four highest rating categories or, if not rated by any NRSRO, have been determined by the Adviser to be of comparable quality. Non-investment grade debt securities (typically called "high yield bonds") are securities that have received a rating from a NRSRO of below investment grade or have been given no rating, and are considered by the NRSRO to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. Non-investment grade debt securities may involve a substantial



risk of default or may be in default. Adverse changes in economic conditions or developments regarding the individual issuer are more likely to cause price volatility and weaken the capacity of the issuers of non-investment grade debt securities to make principal and interest payments than is the case for higher grade debt securities. An economic downturn affecting an issuer of non-investment grade debt securities may result in an increased incidence of default. In addition, the market for lower grade debt securities may be thinner and less active than for higher grade debt securities.

Counterparty and Custodial Risk. Many of the markets in which the Adviser effects Client transactions are “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange based” markets. This exposes a Client to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Client to suffer a loss. Such counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Adviser has concentrated Client transactions with a single or small group of counterparties. The Adviser is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty.

The Adviser generally will maintain custody of Private Fund assets with its Prime Brokers and other Custodians, which do not separately segregate such customer assets as would be required in the case of U.S. registered investment companies and therefore the bankruptcy of any such Prime Brokers and Custodians could have a greater adverse effect on the Private Fund. There is no certainty that, in the event of a failure of a broker-dealer or other custodian that has custody of Private Fund assets, the Private Fund would not incur losses due to its assets being unavailable for a period of time, the ultimate receipt of less than full recovery of its assets, or both. Additionally, under certain circumstances, the securities and other assets deposited with the custodian or broker may not be clearly identified as being assets of the Private Fund and hence the Private Fund could be exposed to a credit or default risk with regard to such parties.

Distressed Investment Risk. The Adviser may invest the assets of certain Client Accounts, directly or indirectly, in securities of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, or that are involved in bankruptcy or reorganization proceedings. Investments of this type may involve substantial financial and business risks that can result in substantial, or at times even total, losses. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court’s power to disallow, reduce, subordinate or disenfranchise particular claims. The market prices of such securities 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 securities may be greater than those prevailing in other securities markets. It may take a number of years for the market price of such securities to reflect their intrinsic value.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or



contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Client Account of the security in respect to which such distribution was made.

In certain transactions, a Client Account may not be “hedged” against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

The administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor’s estate prior to any return to creditors (other than out of assets or proceeds thereof, which are subject to valid and enforceable liens and other security interests) and equity holders. In addition, certain claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

The Adviser or an affiliate, on behalf of Client Accounts, may elect to serve on creditors’ committees or other groups to ensure preservation or enhancement of a Client’s position as a creditor. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If the Adviser concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to each Client, it will resign from that committee or group, and the Client may not realize the benefits, if any, of participation on the committee or group. In addition, if a Client is represented on a committee or group by the Adviser, it may be restricted or prohibited under applicable law from disposing of its investments in the relevant debtor while the Client continues to be represented on such committee or group.

Distressed Securities and Securities Issued by Companies with a Low Credit Rating. The Adviser may invest the assets of certain Client Accounts and trade, long and short, in bonds or other fixed income securities, including, without limitation, commercial paper and “higher yielding” (and, therefore, higher risk) debt securities. Such securities may be below “investment grade” and face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer’s inability to meet timely interest and principal payments. Such securities tend to be highly volatile and illiquid. The market values of certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. Companies that issue such securities often are highly leveraged and may not have available to them more traditional methods of financing. Any economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities. The Adviser’s ability to realize significant appreciation in the value of such securities may depend upon the issuer’s ability to achieve a successful reorganization or restructuring. The risk inherent in such securities may be offset by hedging techniques, but this is not always the case. In some instances, hedging could compound the risk.

Investing in Different Levels of the Capital Structure: A Client Account may hold interests in an entity that are of a different class, type or seniority than, or otherwise adverse to, the class, type or seniority of interests held by other Client Accounts. Similarly, Client Accounts may both hold multiple investments across the capital structure of an issuer of varying classes, types or seniorities, but may hold different proportions of each such investment. It is possible that the trading and investment activities of any Client Account could conflict with the activities and strategies employed in managing



the assets of a Client Account and affect the prices and availability of the loans, securities and instruments in which a Client Account invests. For example, one Client Account may hold unsecured debt of an issuer while another Client Account holds secured debt of the same issuer. This would potentially result in one Client Account being senior or junior to another Client Account in the capital structure of such entity, which could mean that in a restructuring, workout or other distressed scenario the interests of such Client Accounts might be adverse to one another, and one such Client Account might recover all or part of their investment while the other does not. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, raise conflicts of interest.

In addressing certain of the potential conflicts of interest described herein, Whitebox may, but shall not be obligated to, take one or more actions on behalf of a Client Account, including any one or more of the following: (i) causing a Client Account to remain passive in a situation in which it is otherwise entitled to vote or take other action, which may result in the outcome of such vote or action being determined by (x) other investors or decision-makers in the same class of equity or debt securities (or another class of equity or debt) or (y) the vote or other action taken by another Client Account; (ii) referring the matter to one or more persons that is not affiliated with Whitebox to review or approve of an intended course of action with respect to such matter; (iii) consulting with a Client Account on such matter or otherwise requesting that the Private Funds' Oversight Committee approve such matter; (iv) as between two Client Accounts, ensuring (or seeking to ensure) that the underlying investors therein own interests in the same securities or financial instruments and in the same proportions so as to preserve an alignment of interest; or (v) causing a Client Account to divest itself of a security or financial instrument or particular class, series or tranche of an issuer's capital structure it might otherwise have held on to, including causing a CLO to sell a security or financial instrument to one or more other Client Accounts (or vice versa), or underlying investors in such other Client Account. There can be no assurance that any of these measures will be feasible or effective in any particular situation, and it is possible that the outcome for one Client Account will be less favorable than might otherwise have been the case if Whitebox had not had duties to other Client Accounts.

Whitebox recognizes that conflicts arise when Client Accounts invest in different levels of the capital structure of the same entities and will endeavor to treat all Client Accounts fairly and equitably under such circumstances. The actions taken by Whitebox, on behalf of Client Accounts, are expected to vary based on the particular facts and circumstances surrounding each investment by two or more Client Accounts in different classes, series or tranches of an issuer's capital structure (as well as across multiple issuers or borrowers within the same overall capital structure) and, as such, investors should expect some degree of variation, and potentially inconsistency, in the manner in which potential or actual conflicts are addressed. While Whitebox seeks to resolve the conflicts in an impartial manner, there can be no assurance that Whitebox's own interests will not influence its conduct.

Distressed Debt Tax Considerations. The tax accounting rules with respect to the timing and character of income and losses on investments in distressed debt instruments may result in adverse tax consequences. For instance, investors in onshore Private Funds may be required to include in income accrued interest, "original issue discount," and, potentially, "market discount" (each of which will be ordinary income), with respect to debt instruments held by the Private Fund even though there is uncertainty as to whether such amounts and/or the ultimate principal amount will ever be



received. If an item of income is accrued and subsequently becomes uncollectible, the effect is a deduction, rather than the elimination of the accrual, even if the item becomes uncollectible in the same tax year that it is accrued. Accordingly, investors in onshore Private Funds may be subject to character mismatches where the Private Fund is required to accrue an amount of interest, original issue discount or market discount with respect to a capital asset which is subsequently sold at a loss. In addition, if a debt instrument held by the Private Fund is modified, investors in the onshore Private Fund may be required to recognize gain as a result of the modification.

High Yield Risk. Investing in high yield debt securities involves risks which are greater than the risks of investing in higher quality debt securities. These risks include: (i) changes in credit status, including weaker overall credit conditions of issuers and risks of default; (ii) industry, market and economic risk; (iii) interest rate fluctuations; and (iv) greater price variability and credit risks of certain high yield securities such as zero coupon and payment-in-kind securities. While these risks provide the opportunity for maximizing return over time, they may result in greater upward and downward movement of the value of a Client's portfolio. Furthermore, the value of high yield securities may be more susceptible to real or perceived adverse economic, company or industry conditions than is the case for higher quality securities. Adverse market, credit or economic conditions could make it difficult at certain times to sell certain high yield securities held by a Client Account.

Repurchase Agreements. Certain Client Accounts may enter into repurchase agreements. A repurchase agreement is a contract under which the Adviser acquires a security for a Client Account for a relatively short period (usually not more than one week) subject to the obligation of the seller to repurchase and the Client Account to resell such security at a fixed time and price (representing the Client Account's cost plus interest). Repurchase agreements may also be viewed as loans made by the Client Account which are collateralized by the securities subject to repurchase. If the counterparty defaults, the Client Account could realize a loss on the sale of the underlying security to the extent that the proceeds of sale including accrued interest are less than the resale price provided in the agreement including interest. In addition, if the seller should be involved in bankruptcy or insolvency proceedings, the Client Account may incur delay and costs in selling the underlying security or may suffer a loss of principal and interest if the Client Account is treated as an unsecured creditor and required to return the underlying collateral to the seller's estate.

Interest Rate Risk and Duration Risk. The value of the fixed-income component of a convertible security generally can be expected to fall when interest rates rise and to rise when interest rates fall. Interest rate risk is the risk that interest rates will rise, so that the value of the security will fall. Duration measures the approximate price sensitivity of a security to changes in interest rates and it is the primary measure of risk within the fixed-income component of a convertible security. Changing conditions and perceptions, including market fluctuations, may modify an obligation's duration and, independently, have other adverse effects on the value of a security.

Borrowing and Leverage. The Adviser may borrow money on behalf of certain Client Accounts without limitation to invest in additional portfolio securities. This practice significantly increases a Client's market exposure and its risk. When a Client has borrowed money for leverage and its investments increase or decrease in value, the Client's investment portfolio will increase or decrease more (possibly by multiples, depending upon the degree of leverage employed at such time) than if it had not borrowed money. In addition, the interest the Client must pay on borrowed money will reduce the amount of any potential gains or increase any losses.



Reinvestment Risk: Subject to certain limitations, certain Client Account may generally reinvest any proceeds from its investments for a certain period following the closing date of such Client Account. The objective of such reinvestment capability is to provide ongoing additional capital to potentially increase the total return from the investments to such Client Account's investors. However, if the proceeds of a Client Accounts investments are reinvested, its investors' capital will continue to be subject to the risk of loss for a longer period of time. If reinvested proceeds are lost, such loss would offset at least a portion of any gains that may have been realized from prior investments of such Client Account, and it is possible that any such loss could exceed any such prior gains, thereby resulting in a possible loss of at least a portion of the amounts invested in the Client Account by its investors.

Short Sales. Client Accounts may engage in short sales of securities. Short sales are transactions in which the Adviser, on behalf of a Client, sells a security the Client does not own, in anticipation of a decline in the market value of that security. To complete such a transaction, the Client must borrow the security to make delivery to the buyer. The Client then is obligated to replace the security borrowed by purchasing it at the market price at or prior to the time of replacement. The price at such time may be more or less than the price at which the security was sold by the Client. Until the security is replaced, the Client is required to repay the lender any dividends or interest that accrues during the period of the loan. To borrow the security, the Client may be required to pay a premium, which would increase the cost of the security sold. Transaction costs will also be incurred in effecting short sales.

A Client Account will incur a loss as a result of the short sale if the price of the security increases between the date of the short sale and the date on which the Adviser replaces the borrowed security. A gain will be realized if the security declines in price between those dates. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of the premium, dividends, interest or expenses the Client may be required to pay in connection with a short sale. An increase in the value of a security sold short by the Client over the price at which it was sold short will result in a loss to the Client, and there can be no assurance that the Adviser will be able to close out the position at any particular time or at an acceptable price. Except in the case of short sales "against the box" (as to which the Client owns or has a contractual right to acquire at a fixed price the securities sold short), the Client's market risk is unlimited in that the increase in the market price of the security sold short is unlimited.

Long and Short the Same Security at the Same Time. The Adviser, on behalf of certain Client Accounts, may actively trade, or hold positions, on a long and short basis across Client Accounts (or potentially within the same Private Fund) at the same time due to the application of different investment strategies. For example, a convertible strategy may short a given security while an equity strategy may purchase that same security on a long basis. This creates a risk in that, depending on the liquidity of the security, a transaction for one strategy may have a detrimental effect on the pricing of that security for a different strategy.

Trading in Commodity Interests is Volatile. Commodity interest prices and other contract prices are highly volatile. Price movements of commodity interests are influenced by, among other things, changing supply and demand relationships, governmental, trade programs and policies, weather and national and international political and economic events. None of these factors can be controlled by the Adviser or its affiliates.



Commodity Trading May Be Illiquid. Certain commodity exchanges limit fluctuations in commodity futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” During a single trading day no trades may be executed at prices beyond the daily limit. Once the price of a futures contract for a particular commodity has increased or decreased by an amount equal to the daily limit, positions in the commodity cannot be taken or liquidated unless both a buyer and seller are willing to effect trades at or within the limit. Futures contract prices on various commodities or financial instruments occasionally have moved to the daily limit for several consecutive days with little or no trading. Similar occurrences, or regulatory intervention in the commodity markets, could prevent the Adviser from promptly liquidating unfavorable positions and adversely affecting trading and profitability.

Hedging Transactions. The Adviser may utilize financial instruments to hedge against fluctuations in the relative values of its portfolio positions as a result of certain changes in the equity markets. Hedging against a decline in the value of portfolio positions does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions’ value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio positions should increase. Moreover, it may not be possible for the Adviser to hedge against a fluctuation at a price sufficient to protect a Client’s assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations. In addition, it may not be possible to hedge against certain risks.

The success of the Adviser’s hedging transactions is dependent on the Adviser’s ability to correctly predict movements in the direction of the equity markets or sectors thereof. Therefore, while the Adviser may enter into such transactions to seek to reduce the risks of a decline in the equity markets generally or one or more sectors of the equity markets in particular, unanticipated increases or smaller than expected decreases in the equity markets or sectors being hedged may result in a poorer overall performance for a Client than if the Adviser had not engaged in any such hedging transaction. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged may vary. Moreover, for a variety of reasons, the Adviser may not seek to hedge certain portfolio holdings or establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent a Client Account from achieving the intended hedge or expose the Client Account to additional risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Client’s portfolio holdings.

Securities Lending. The Adviser may lend securities of certain Client Accounts, primarily through prime brokers. The risks in lending portfolio securities, as with other extensions of credit, consist of possible delay in recovery of the securities or possible loss of rights in the collateral should the borrower fail financially.

Lack of Liquidity in Markets. Despite the heavy volume of trading in securities, the markets for some securities have limited liquidity and depth. This lack of depth could be a disadvantage to the Adviser and Clients, both in the realization of the prices which are quoted and in the execution of orders at desired prices.



Purchasing Initial Public Offerings. The Adviser, on behalf of Client Accounts, may purchase securities of companies in initial public offerings or shortly thereafter. Special risks associated with these securities may include a limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer, and limited operating history. These factors may contribute to substantial price volatility for the shares of these companies. The limited number of shares available for trading in some initial public offerings may make it more difficult for the Client Account to buy or sell significant amounts of shares without an unfavorable impact on prevailing market prices. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospectus of achieving them.

Warrants and Rights. The Adviser may purchase warrants and rights on behalf of Clients. Warrants are derivative instruments that permit, but do not obligate, the holder to subscribe for other securities or commodities. Rights are similar to warrants, but normally have a shorter duration and are offered or distributed to shareholders of a company. Warrants and rights do not carry with them the right to dividends or voting rights with respect to the securities that they entitle the holder to purchase, and they do not represent any rights in the assets of the issuer. As a result, warrants and rights may be considered more speculative than certain other types of equity-like securities. In addition, the values of warrants and rights do not necessarily change with the values of the underlying securities or commodities and these instruments cease to have value if they are not exercised prior to their expiration dates.

Fixed Income Obligations: A Client Account's investments in fixed income obligations are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). Loans and other fixed income securities generally involve less market risk than stocks. However, the risk of loans can vary significantly depending upon factors such as the issuer and maturity. For example, the issuer of a security or the counterparty to a contract may default or otherwise become unable to honor a financial obligation. The loans of some companies may be riskier than the stocks of others.

Option Transactions. The Adviser may purchase or sell various "put" and "call" options, warrants, and other derivative securities without limitation. The use of options involves a high degree of embedded leverage, which can involve greater market risk, especially when not used to hedge the underlying security. If the Adviser purchases a put option on behalf of a Client, the Client acquires the right to sell the underlying security at a specified price at any time during the term of the option or on the option expiration date. Purchasing put options may be used as a portfolio investment strategy when the Adviser perceives significant short-term risk of substantial capital depreciation potential for the underlying security and may be used as an alternative to selling a security short. Selling put options may also be used as a method to purchase securities below current market prices or to collect the premium. If the Adviser purchases a call option, it acquires the right to purchase the underlying security at a specified price at any time during the term of the option. The purchase of a call option is a type of insurance policy to hedge against losses that could occur if the Adviser has a short position in the underlying security and the security thereafter increases in price. The selling of call options may also be used to initiate short positions at or above current market prices or to collect a premium. The Adviser generally will only invest in options for which the Adviser



believe there is an active secondary market to facilitate closing transactions. The premium paid at the time an option is purchased will reduce any profit the Client might have realized had the Adviser purchased or sold the underlying security (or the contract on the underlying index, as applicable) instead of purchasing the put or call option.

Non-U.S. Securities Markets. Client Accounts may trade securities on non-U.S. as well as U.S. markets. Because non-U.S. securities markets are generally less regulated than U.S. markets, the trading on those markets presents certain risks that may not be present in trading on U.S. markets. For example, some foreign securities exchanges are “principals exchanges” in which performance is the responsibility only of the individual exchange member and not of an exchange clearing house.

Non-U.S. Issuers: Whitebox invests in the loans of non-U.S. issuers. Investing in such instruments involves certain considerations not usually associated with investing in the loans of a U.S. issuer, including, among other things: political and economic considerations, such as greater risks of expropriation, nationalization and general social, political and economic instability; the smaller size of the securities markets in such countries and the lower volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; imposition of withholdings and other taxes; and certain government policies that may restrict a Client Account’s investment opportunities. In addition, accounting and financial reporting standards that prevail in many foreign countries are not equivalent to U.S. standards and, consequently, less information may be available with respect to non-U.S. issuers than is available with respect to U.S. issuers.

Bankruptcy law and process in non-U.S. jurisdictions often differ substantially from that in the United States, which will often result in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain, while some other developing countries have no bankruptcy laws enacted, adding further uncertainty to the process for reorganization.

Investment in Vehicles Managed by Affiliates. Whitebox may, from time to time, sponsor or act as Collateral Manager for CLOs, through Whitebox CLO Management LLC, in which Whitebox Funds may invest either as equity or debt-holders. In its capacity as Collateral Manager of any CLO in which all or any part of a tranche is owned by the Whitebox Funds, Whitebox CLO Management LLC may make decisions without regard to the potential impact, if any, that such decisions may have on Funds that own securities issued by such CLOs. To the extent that fees due to Whitebox and/or Relying Advisers are attributable to the interests owned by the Private Funds, such fees are waived at the Private Fund level, thereby mitigating the conflict of interest that such investments may present.

Co-Investments of CLOs: A CLO may co-invest initially in a particular loan, security or other investment at substantially the same time as other Client Accounts, in which case they would invest at substantially the same price; however, the actual price, terms and amount of leverage (if any), and associated transaction costs may differ between Client Accounts. In addition, there can be no assurance that each Client Account would dispose of such an investment at substantially the same price or time as other Client Accounts due to many factors that may or may not be foreseeable at the time of investment, including available cash and other needs, differing basis in the investment, differing financing terms applicable to different investments, time horizons applicable to different Client Accounts (including different investment periods) and their differing investment objectives



and investment programs. Further, one CLO's determination to dispose of an investment could affect the timing of another Client Account's disposal of that same investment. For example, such disposal could forfeit or diminish altogether certain rights or benefits held directly or indirectly by all Client Accounts participating in the investment due to aggregate holdings size requirements or other considerations or otherwise affect the long-term viability of the investment, resulting in the determination by the other Client Accounts that it is in their respective best interests to liquidate their positions as well even if the timing of such liquidation would not otherwise have been considered optimal. Further, to the extent a CLO is required to liquidate its interest in such investment, such liquidation may have an adverse effect on the market value of the underlying investment.

Investing in Pre-Existing Investments: A CLO may invest in collateral in which other Client Accounts hold an investment. Such transactions may have an effect (positive or negative) on the market price of such investment. In circumstances in which a CLO invests in an instrument in which other Client Accounts have a pre-existing investment, the investing CLO will make business decisions relating to such investment independently of the analogous decisions made with respect to such investment by such other Client Accounts.

CLO-SPECIFIC RISKS:

Nature of CLO Investments: The CLOs invest in collateral obligations consisting at the time of acquisition of predominantly bank loans and other debt instruments, all of which have greater credit and liquidity risk than investment grade sovereign or corporate bonds or loans. Such collateral is subject to credit, liquidity and interest rate risks. The lower rating of below investment grade collateral reflects a greater possibility that adverse changes in the financial condition of an issuer or borrower or in general economic conditions or both may impair the ability of the relevant borrower or issuer, as the case may be, to make payments of principal or interest.

CLOs are typically structured so that the notes issued by the CLO are assumed to be able to withstand certain assumed losses relating to defaults on the underlying collateral obligations; however, there is no assurance that actual losses will not exceed such assumed losses. If any losses exceed such assumed levels, payments to CLO investors could be adversely affected.

In recent years, events in the collateral debt obligation (including CLO), leveraged finance and fixed income markets have contributed to a severe liquidity crisis in the global credit markets which has resulted in substantial fluctuations in prices for leveraged loans and high-yield debt securities and limited liquidity for such instruments. No assurance can be made that the conditions giving rise to such price fluctuations and limited liquidity will not continue or become more acute. During periods of limited liquidity and higher price volatility, a CLO's ability to acquire or dispose of collateral obligations at a price and time that the CLO deems advantageous may be severely impaired. As a result, in periods of rising market prices, a CLO may be unable to participate in price increases fully to the extent that it is unable to acquire desired positions quickly; and such CLO's inability to dispose fully and promptly of positions in declining markets may exacerbate losses suffered by the CLO when collateral obligations are sold.



Concentration of Investments: The CLOs are fully invested in the credit markets with most of the exposure coming from the leveraged loan market. As such, the CLOs have a high concentration of their respective portfolios invested in a single asset class.

Collateral Obligations below Investment Grade: Primarily all of the collateral obligations of the CLOs are rated below investment grade. Obligors of below investment grade debt obligations may be highly leveraged and may not have available to them more traditional methods of financing or may not be able to refinance their debt obligations. Leveraged loans have historically experienced greater default rates than has been the case for investment grade securities. There can be no assurance as to the levels of defaults and/or recoveries that may be experienced on the collateral obligations, and an increase in default levels could adversely affect the performance of the CLO, and thus, the return to investors in the CLO.

A non-investment grade loan or other debt obligation is generally considered speculative in nature and may go into default. Such a defaulted obligation may become subject to either substantial work out negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of principal, and a substantial change in the terms, conditions and covenants with respect to such defaulted obligation. In addition, such negotiations or restructuring may be quite extensive and protracted over time, and therefore may result in substantial uncertainty with respect to the ultimate recovery on such defaulted obligation. The liquidity for defaulted obligations may be limited, and to the extent that defaulted obligations are sold, it is highly unlikely that the proceeds from such sale will be equal to the amount of unpaid principal and interest thereon.

Volatility: Prices of the collateral obligations may be volatile, and generally fluctuate due to a variety of factors that are inherently difficult to predict, including but not limited to changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic and international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors of the collateral obligations.

Illiquidity of Investments: CLO investments may have limited liquidity in the secondary market and are subject to transfer restrictions.

In some circumstances the underlying collateral of CLOs are relatively illiquid, potentially making it difficult to acquire or dispose of them. Accordingly, WCM's ability to respond to market movements may be impaired, and CLOs may experience adverse price movements upon liquidation of its investments.

In addition, the CLOs may acquire private investments as a part of a bankruptcy or restructuring that are subject to liquidity-related risks, particularly the risk that a CLO will be unable to dispose of such investments by sale or other means at attractive prices or will otherwise be unable to complete any exit strategy. Among others, these risks include changes in the financial condition or prospects of the entity in which the investment is made. It is not generally expected that private securities acquired by a CLO will eventually be registered and listed on a securities exchange. Absent registration, such CLO will not be able to sell such securities unless an exemption from such registration requirements is available. To the extent that there is no liquid trading market for an investment, a CLO may be unable to liquidate that investment or may be unable to do so at a profit. Moreover, there can be no assurances that private purchasers for a CLO's investments will be found.



Prepayment Risk: Some of the terms of loans acquired by a CLO are subject to early prepayment options or similar provisions which, in each case, could result in a CLO realizing such loans earlier than expected, sometimes with no or a nominal prepayment premium. This typically happens when there is a decline in interest rates, when the portfolio company's improved credit or operating or financial performance allows the refinancing of certain classes of debt with lower cost debt or when the general credit market conditions improve. In the event a CLO receives proceeds from an investment earlier than it had anticipated, a CLO is often permitted to reinvest such proceeds, but there is no assurance that a CLO will be able to reinvest such proceeds even where they are received during such CLO's reinvestment period. On occasion, a CLO's inability to reinvest such proceeds will materially affect the performance of a CLO.

Leverage: CLOs employ leverage which could lead to losses in some of the notes issued by a CLO, and the all classes of notes are subject to up to 100% loss of invested capital. Any deterioration in the performance of the underlying collateral will be borne first by the subordinated notes.

Competition: The business of investing in assets meeting the CLOs' investment objectives is highly competitive. Competition for investment opportunities includes a growing number of non-traditional participants, such as hedge funds, private and public mezzanine and subordinated debt funds, including business development companies, and other private investors, as well as more traditional lending institutions and competitors. Some of these competitors may have access to greater amounts of capital and to capital that may be committed for longer periods of time or may have different return thresholds than the CLOs, and thus these competitors may have advantages relative to the CLOs. Increased competition for, or a diminishment in the available supply of, investments suitable for the CLOs could result in lower returns on such investments. In addition, issuers may prefer to take advantage of favorable high yield or second lien markets and issue subordinated debt in those markets, which could result in fewer investment opportunities for CLOs. Moreover, the identification of attractive investment opportunities is difficult and involves a high degree of uncertainty. CLOs may incur significant expenses in connection with identifying investment opportunities and investigating other potential investments which are ultimately not consummated, including expenses relating to due diligence, transportation and legal expenses.

Reliance on Certain Third Parties: CLOs are dependent upon their service providers, such as the trustees, directors, custodians and administrators of the CLOs. Errors are inherent in the operations of any business (including the business of the CLOs), and although WCM has adopted measures to prevent and detect errors by, and misconduct of, service providers, and to transact with service providers it believes to be reliable, such measures may not be effective in all cases. Errors or misconduct by such service providers could have a material adverse effect on the CLOs.

Dissolution Risks: The CLO may be required to liquidate its investments. In the case of a dissolution, WCM may be required to sell some or all of the CLO investments under circumstances which may negatively affect the CLO's returns. Where a CLO is liquidated pursuant to its dissolution provisions, this may also negatively affect the value of other Client Account investments and/or the circumstances of their disposition and accordingly the CLO's returns.

The Dodd Frank Act and U.S. Risk Retention Rules: In response to the downturn in the credit markets and the global economic crisis of 2007-2008, legislators and various agencies and regulatory bodies of the United States federal government and in Europe have taken or are considering taking



actions. These actions include, but are not limited to, the enactment of the Dodd Frank Wall Street Reform and Consumer Protection Act (the “Dodd Frank Act”), which was signed into law on July 21, 2010, and which imposes a new regulatory framework over the U.S. financial services industry and the consumer credit markets in general, and proposed and actual regulations by the SEC and the Commodity Futures Trading Commission (“CFTC”). Implementation of the Dodd Frank Act has required, and will continue to require, many lengthy rulemaking processes resulting in the adoption of a multitude of new regulations applicable to entities which transact business in the U.S. or with U.S. persons outside the U.S. The Dodd Frank Act affects many aspects, in the U.S. and internationally, of the business of WCM. While many regulations implementing various provisions of the Dodd Frank Act have been finalized and adopted, some implementing regulations currently exist only in draft form and are subject to comment and revision, and still other implementing regulations have not yet been proposed. It is therefore difficult to predict whether and to what extent the CLOs and the businesses of WCM and its subsidiaries and affiliates, will be affected by the Dodd Frank Act as implementing regulations are finalized over time and come into effect.

Pursuant to the Dodd Frank Act, the CFTC has promulgated a range of new regulatory requirements that may affect the pricing, terms and compliance costs associated with derivatives contracts that may be entered into by a CLO from time to time. Such new regulations may require central clearing of derivatives trades with a derivatives clearinghouse organization, may mandate initial and variation margin requirements, and may increase reporting obligations, documentation responsibilities and other matters in respect of derivatives contracts, in each case, potentially resulting in significantly increased costs to the CLOs and/or WCM. Such regulation and related increased costs may lead to a CLO’s inability to purchase additional collateral obligations or have unforeseen legal consequences on a CLO or WCM or have other material adverse effects on the CLOs or investors therein. In addition, CFTC rules under the Dodd Frank Act include “swaps” along with “futures” as contracts which if traded by an entity may cause that entity to fall within the definitions of a “commodity pool” or “commodity trading advisor” under the Commodities Exchange Act and WCM to fall within the definition of a “commodity pool operator” (“CPO”) and/or a “commodity trading advisor” (“CTA”).

Whitebox and WCM are not registered with the CFTC; however, it may so register in the future. Such registration would cause Whitebox or WCM to be subject to reporting requirements that may result in material costs to Client Accounts. The scope of the requirements described above and related compliance costs is uncertain but could adversely affect the amount of Client Account funds available to make payments. While Client Accounts may be excluded from the definition of “commodity pool” or Whitebox may satisfy the requirements of an exemption from the registration requirements described above, the conditions of any such exclusion or exemption may constrain the extent to which Client Accounts may be able to enter into certain derivatives transactions. In particular, the limits imposed by such exclusions or exemptions, or the compliance costs resulting from the CFTC rules, may prevent Client Accounts from entering into transactions that Whitebox believes would be advisable or result in Client Accounts incurring financial risks that would have been hedged absent such limits or compliance costs.

Based on applicable CFTC guidance, it is expected that Client Accounts will not fall within the definition of “commodity pool”. However, no assurance can be given that Client Accounts will not be deemed to be commodity pools and that Whitebox &/or WCM are not required to be registered with the CFTC and/or the National Futures Association (“NFA”).



Given the broad scope and sweeping nature of these changes and the fact that final implementing rules and regulations have not yet been enacted, the potential impact of these actions on the CLOs and WCM is unknown, and no assurance can be made that the impact of such changes would not have a material adverse effect on the prospects of the CLOs or the value or marketability of their investments.

On October 21, 2014, the final rules implementing the credit risk retention requirements of Section 941 of the Dodd Frank Act (the “U.S. Risk Retention Rules”) were issued. The U.S. Risk Retention Rules generally require the collateral manager of a collateralized loan obligation to retain not less than five percent of the credit risk of the assets collateralizing the collateralized loan obligation’s securities.

On February 9, 2018, a three-judge panel (the “Panel”) of the United States Court of Appeals for the D.C. Circuit (the “Appellate Court”) ruled in favor of an appeal by the Loan Syndications and Trading Association against the United States Securities and Exchange Commission and the Board of Governors of the Federal Reserve System that managers of so-called “open market CLOs” are not “securitizers” under Section 941 of the Dodd Frank Act and, therefore, are not subject to the U.S. Risk Retention Rules (the “LSTA Opinion”).

On April 5, 2018, the District Court entered its order implementing the appellate mandate issued by the Appellate Court (the “Appellate Mandate”) and vacating the U.S. Risk Retention Rules as they apply to managers of “open market CLOs”. Therefore, the U.S. Risk Retention Rules do not apply to managers of “open market CLOs” (which may include WCM) as of the date hereof, and there may be no “sponsor” of the CLOs and no party may be required to acquire and retain an economic interest in the credit risk of the securitized assets of the CLOs under the U.S. Risk Retention Rules. The LSTA Opinion did not specifically address whether an “open market CLO” includes transactions where the manager is an “originator” for the purposes of the EU Retention Requirements. Given the lack of guidance, it is unclear whether certain CLOs would qualify as an “open market CLO” for purposes of the LSTA Opinion.

Investors in the CLO will not be entitled to the protections afforded by the U.S. Risk Retention Rules to comply with certain disclosure obligations in the U.S. Risk Retention Rules. The market may face some of the same risk faced by other securitization markets preceding the enactment of the Dodd Frank Act: excessive leverage by borrowers, an insufficient supply of loans, excessive demand in the loan market driven by new offerings, loosening of credit standards due to excessive demand and other similar risks. All of these risks and others could reduce the market value or liquidity of investments in the CLO. The ultimate effects of the LSTA Opinion are unknown at this time.

Because the U.S. Risk Retention Rules are intended to apply with respect to initial offerings as well as other transactions, including, without limitation, certain refinancings, re-pricings and additional issuances, and WCM does not expect to effect any such transactions, even if the U.S. Risk Retention Rules generally become effective, they are not expected to apply to WCM’s activities. However, WCM does not expect to make any commitment or any representation nor give any undertaking as to compliance with the U.S. Risk Retention Rules in connection with its operations. WCM’s regulatory authorizations and obligations may change from time to time, and no assurance can be made that the United States federal government or any U.S. regulatory body (or other authority or regulatory body) will not continue to take further legislative or regulatory action in response to the economic crisis or otherwise, and the effect of such actions, if any, cannot be known or predicted.



European Risk Retention: In Europe, risk retention and due diligence requirements (the “EU Risk Retention and Due Diligence Requirements”) apply in respect of various types of European Union regulated investors. Among other things, such requirements restrict an investor who is subject to the EU Risk Retention and Due Diligence Requirements from investing in securitizations unless: (i) the originator has explicitly disclosed that it will retain at least five percent of certain specified tranches; and (ii) is able to demonstrate that the investor performed certain due diligence with respect to its investment. Failure to comply with one or more of the requirements may result in various penalties including, in the case of those investors subject to regulatory capital requirements, the imposition of a punitive capital charge on the notes acquired by the relevant investor. Aspects of the requirements and what is or will be required to demonstrate compliance to national regulators remain unclear. These requirements and any other changes to the regulatory treatment of securitizations may negatively impact the regulatory position of investors. In addition, such regulations could have a negative impact on the price and liquidity of the notes offered by a CLO in the secondary market. WCM does not expect to effect any transactions which would require WCM to retain an interest in the CLOs. However, WCM does not expect to make any commitment or any representation nor give any undertaking as to compliance with the EU Risk Retention and Due Diligence Requirements in connection with its operations. There can be no assurances as to whether the EU Risk Retention and Due Diligence Requirements will be amended or altered by a change in law or regulation.

Lender Liability and Equitable Subordination: A number of judicial decisions have upheld judgments of borrowers against lending institutions on the basis of various evolving legal theories, collectively termed “lender liability”. Generally, lender liability is founded on the premise that a lender has violated a duty (whether implied or contractual) of good faith, commercial reasonableness and fair dealing, or a similar duty owed to the borrower or has assumed an excessive degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of the portfolios held by the CLOs, each of the CLOs may be subject to allegations of lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (a) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a shareholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination”. Because of the nature of the portfolios held by the CLOs, each of the CLOs may be subject to claims of equitable subordination.

Because certain Whitebox Private Funds hold equity or other interests in obligors of collateral obligations, the CLO could be exposed to claims for equitable subordination or lender liability or both based on such equity or other holdings.

The foregoing discussion of lender liability and equitable subordination is based upon principles of United States federal and state laws. Insofar as collateral obligations that are obligations of non-United States obligors are concerned, the laws of certain foreign jurisdictions may impose liability upon lenders or bondholders under factual circumstances similar to those described above, with



consequences that may or may not be analogous to those described above under United States federal and state laws.

The forgoing discussion of investment strategies and their related risks is not intended to be exhaustive. The Adviser and its affiliates may employ additional strategies and instruments from time to time in pursuing investment objectives of Client Accounts. Those strategies and instruments have their own unique risks that may prevent the Adviser from achieving the Clients' investment objective. Additionally, during weak or declining markets, the Adviser may invest more of the Client Accounts' assets in cash and cash equivalents. Although such investments in cash and cash equivalents would primarily be intended to avoid losses, this type of investing also could prevent a Client Account from achieving its investment objective. Private Fund investors and prospective fund investors should read the relevant fund's Confidential Offering Memorandum and/or constitutional documents and consult with their own advisors before deciding to invest.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Whitebox or the integrity of Whitebox's management.

In April 2014, Whitebox received a confidential information inquiry from the SEC in connection with the purchase of shares in a secondary public offering which occurred in 2012. Whitebox fully cooperated with the SEC and voluntarily reviewed historical trading activity to identify any other potential instances of inadvertent violations of Rule 105. Based on this review, Whitebox identified four additional instances in 2011 and 2012 where Whitebox participated in a secondary offering during a restricted period. All of these instances were voluntarily disclosed to the SEC.

In July 2014, Whitebox voluntarily submitted an Offer of Settlement with respect to the five alleged violations of Rule 105 of Regulation M under the U.S. Securities Exchange Act of 1934, as amended, without admitting or denying the SEC's allegations. The SEC accepted the Offer of Settlement, and imposed a Cease-and-Desist Order from future violations of Rule 105. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Whitebox and cooperation afforded to SEC staff.

The violations allegedly occurred between January 2011 and June 2012. Rule 105 generally prohibits purchasing an equity security in a registered follow-on public offering if the purchaser sold short the same security during a restricted period. The Rule 105 restricted period is the shorter of the period: (1) beginning five business days before the pricing of the offered securities and ending with such pricing; or (2) beginning with the initial filing of a registration statement or notification on Form 1-A or Form 1-E and ending with the pricing.

Rule 105 is prophylactic and prohibits the conduct irrespective of the short seller's intent in effecting the short sale. The settlement involved the payment by Whitebox (without any contribution from any Client Account) of disgorgement of \$788,779, prejudgment interest of \$48,553.49 and a civil money penalty of \$365,592.83 (for a total of \$1,202,925.30) to the U.S. Treasury.



Item 10 – Other Financial Industry Activities and Affiliations

The Private Funds

The Adviser may provide investment advice to its Private Funds through special purpose investment advisers controlled by the Adviser (the “Relying Advisers”). In order for the Relying Advisers to rely upon the Adviser’s SEC Registration, the following requirements are applicable to all Relying Advisers:

- a) All investment advisory activities of the Relying Advisers will be subject to the Investment Advisers Act of 1940 and the rules thereunder;
- b) The Relying Advisers will be subject to examination by the SEC;
- c) The Adviser subjects the Relying Advisers, their employees and persons acting on their behalf to the Adviser’s supervision and control;
- d) The Relying Advisers are subject to all policies and procedures of Whitebox; and
- e) The Relying Advisers provide services exclusively to Whitebox.

The Relying Advisers, which are controlled by the Adviser, are set forth below:

- Whitebox Advisors London, LLP;
- Whitebox Advisors Australia Pty Ltd.; and
- Whitebox Capital Management LLC (an entity that acts as Collateral Manager to CLOs).

Whitebox is also affiliated through common control with Whitebox General Partner LLC, the General Partner to all of the Private Funds with the exception of Whitebox Caja Blanca Fund, LP (where a separate affiliate, Whitebox Caja Blanca GP LLC serves as General Partner) . Many of the Whitebox Private Funds are structured utilizing a “master-feeder” style structure, pooling assets from individual investors (limited partners or shareholders) through the use of onshore feeder funds and offshore feeder funds.

The Private Funds are set forth below:

- Whitebox Relative Value Partners, LP;
- Whitebox Credit Partners, LP;
- Pandora Select Partners, LP;
- Whitebox Multi-Strategy Partners, LP;
- Whitebox KFA Advantage, LLC
- Whitebox Asymmetric Partners, LP;
- Whitebox Institutional Partners, LP;
- Whitebox Caja Blanca Fund, LP
- Whitebox GT Fund, LP;
- Whitebox Term Credit Fund III LP
- Whitebox CLO I Ltd; and
- Whitebox CLO II Ltd.

The onshore feeder funds are set forth below:



- Whitebox Relative Value Fund, LP;
- Whitebox Credit Fund, LP;
- Pandora Select Fund, LP;
- Whitebox Multi-Strategy Fund, LP;
- Whitebox Asymmetric Opportunities Fund, LP ; and
- Whitebox Term Credit Onshore Fund III LP

The offshore feeder funds are set forth below:

- Whitebox Relative Value Fund, Ltd;
- Whitebox Credit Fund, Ltd;
- Pandora Select Fund, Ltd;
- Whitebox Multi-Strategy Fund, Ltd;
- Whitebox Asymmetric Opportunities Fund, Ltd; and
- Whitebox Term Credit Offshore Fund III LP.

Item 11 – Code of Ethics, Personal Trading, Principal and Cross Trades

Code of Ethics

Whitebox has adopted a Code of Ethics (the “Code”) pursuant to Rules 204A-1 and 204-2 under the Advisers Act. Whitebox also maintains a separate Insider Trading Policy. The Code relates to the operation of Whitebox as a registered investment adviser and is an adjunct to, and must be read in conjunction with, Whitebox’s Investment Adviser Compliance and Procedures Manual (the “Manual”). All employees are required to comply with the Code and relevant Federal Securities Laws, and in particular to carry out the fiduciary duty owed by Whitebox to its Clients, which requires that Whitebox always act in the best interests of its clients and places their interests before Whitebox’s interests.

The Code includes restrictions on personal investing activities, guidelines related to retention of records, annual certifications, and reporting of personal securities holdings and trading activities. All Whitebox employees must accept in writing the terms of the Code upon initial employment, annually, or as amended.

Whitebox Clients or prospective clients may request a copy of the Adviser’s Code by calling 612-253-6001, by writing to us at 3033 Excelsior Boulevard, Suite 500, Minneapolis, Minnesota 55416 or by sending an email to: invrelations@whiteboxadvisors.com.

Personal Trading

Employees must submit to the Chief Compliance Officer periodic written reports about their securities holdings, transactions, and accounts (and the securities holdings, transactions, and accounts of other persons if the employee has beneficial ownership of such securities or direct or indirect influence or control over such accounts). The obligation to submit these reports and the content of these reports are governed by Rule 204A-1 of the Advisers Act. The reports are intended to identify conflicts of interest that could arise with respect to an employee’s investments or accounts, and to promote compliance with the Code.



The Code is designed to assure that the personal securities transactions, activities and interests of the employees of Whitebox will not interfere with (i) making decisions in the best interest of Client AccountClient Accounts and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Whitebox's Clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to Client trading activity. Nonetheless, because the Code in some circumstances would permit employees to invest in the same securities as Clients, there is a possibility that employees might benefit from market activity by a Client in a security held by an employee. Employee trading is monitored for adherence to the Code; such monitoring is designed to reasonably prevent conflicts of interest between Whitebox and its Clients.

Principal and Cross Trades

The Adviser does not anticipate entering into any principal trades, however, the Adviser maintains procedures related to principal trades that require consent from the Client prior to execution or prior to settlement of the transaction.

The Adviser may determine from time to time to effect securities trades (including outright purchases and sales) between clients of the Adviser or its affiliates (this trading practice is sometimes referred to as "cross trading"). Any cross trading transactions conducted between Clients of the Adviser or its affiliates will be made at the then market price for similar transactions between unrelated parties and only where an independent pricing mechanism (such as the last sales price on the exchange where the security is principally traded or the average of the most recent bid and ask prices on such exchange) is available.

Transactions between Clients of the Adviser or its affiliates are effected for no consideration other than cash payment against prompt delivery of the relevant security or other instrument, are effected at current market prices, and do not involve any brokerage commissions, clearing charges, other transaction costs or fees, or other remuneration.

In light of the complicated legal considerations surrounding "principal" and "cross" trades, Whitebox portfolio managers may not, without the prior authorization of the Chief Compliance Officer or the General Counsel and without compliance with applicable law cause any Client to: (i) purchase securities from or sell securities to Whitebox, any affiliate of Whitebox or any other client; or (ii) purchase securities issued or held by a client from such client.

Item 12 – Brokerage Practices

Selection of Broker-Dealers

The Adviser retains the authority to select broker-dealers to execute Clients' securities transactions, and determines the brokerage commission rate paid by clients. The Adviser has no obligation to deal with any particular broker-dealer in the execution of securities transactions. In selecting brokers and negotiating commission rates, the Adviser will take into account the financial stability and reputation of brokerage firms and the quality of the brokerage and research services provided by such brokers, although clients may not, in any particular instance, be the direct or indirect beneficiary of the research services provided. As a result, Clients of the Adviser may pay commissions higher than those that may be obtainable from other brokers.



The Adviser utilizes multiple broker-dealers as "prime brokers." Prime brokers provide various services to the Adviser and its Clients, including centralized administration and custody, and consolidation of all trading activities into a single account, with all trades cleared and settled at the prime broker. Prime brokers also provide financing in connection with client transactions. The Adviser reserves the right, in its sole discretion, to change or add prime brokers and/or custodians without prior notice to Clients.

Research and Other Soft Dollars Benefits

Where best price and execution may be obtained from more than one broker or dealer, the Adviser will purchase and sell securities through brokers or dealers who provide research and execution-related products and services, although Clients may not necessarily be the direct or indirect beneficiaries of the research and/or services provided. When the Adviser determines it is in the best interest of Client Accounts to obtain certain products or services using "soft dollars", all such use of commissions or "soft dollars" generated by the Client Accounts will fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended.

Whitebox has entered into a commission sharing arrangement ("CSA"). The CSA permits Whitebox to enhance the quality of execution and consolidate payments for research services using accumulated Client commissions from securities transactions with certain executing brokers whereby the executing broker agrees to an "execution only" commission rate to be subtracted from the "full service" commission rate. The executing broker retains the execution only commission portion as payment for execution services and the balance of the commission will be redirected to one or more third parties, determined by Whitebox, as payment for research services that they have provided. Pursuant to the CSA, the broker-dealer sponsoring the CSA program maintains the balance of commissions in a consolidated account (commission credits) on behalf of Whitebox. Upon Whitebox's instruction, the broker-dealer directs commission credits to providers of research services. Whitebox makes a good faith determination as to the value of the research services obtained through the commission sharing program and may obtain input as to the value of such research services from the service providers participating in the program. The research service providers are compensated directly by the broker-dealer sponsoring the CSA from a pool of commissions that are set aside by the broker-dealer for use by Whitebox to obtain the research services.

In connection with such CSA, Whitebox has established procedures: (1) to make a good faith determination as to the value of the research services obtained through the CSA; (2) to prepare an annual CSA budget for approval by Whitebox's Best Execution Committee which will include all anticipated uses of commissions to acquire research; and (3) for the Best Execution Committee to approve the disbursement of accumulated client commissions to brokers or research providers. Any research services that Whitebox obtains through the use of the CSA fall within the "safe harbor" requirements of Section 28(e) of the Securities Exchange Act of 1934, as amended. Under Section 28(e), research and execution-related services obtained with soft dollars generated by the Client Accounts may be used by the Adviser to service accounts other than the Client Accounts. Where a product or service obtained with soft dollars provides both eligible and non-eligible services and/or products to the Adviser, the Adviser makes a reasonable allocation of the cost which may be paid for with soft dollars. Eligible products or services provided to the Adviser or an affiliate pursuant to these "soft dollar" arrangements include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities and other eligible



execution-related products and services providing assistance to the Adviser in the performance of its investment decision making responsibilities. The Adviser may also utilize these “soft dollar” arrangements for non-research assistance, such as execution services.

Research and execution-related services (as defined by Section 28(e) of the Exchange Act (“Section 28(e)”) furnished or paid for by brokers or dealers may include, but is not limited to:

- a) written information and analyses concerning specific securities, companies or sectors;
- b) market, financial and economic studies and forecasts;
- c) financial and trade publications;
- d) statistical and pricing services;
- e) discussions with research personnel and consultants; and
- f) software, databases and other technological and technical services utilized in the investment management process (including updates, modifications, improvements, product testing, maintenance, offsite or onsite backup, modifications and replacements).

Whitebox does not have any commitments or understandings to trade with specific brokers or to generate a specified level of brokerage transactions and/or commissions with a particular broker in order to receive brokerage or research services. Certain brokers also provide unsolicited proprietary research to Whitebox. This research can be used to service all of the Adviser’s client accounts, even though certain accounts may have not paid direct commissions to the broker or may not have use for the research. In addition to unsolicited research, certain brokers provide invitations to attend conferences and meetings with management representatives of issuers, prospective investors or with other analysts and specialists.

Receipt of research, invitations, capital introductions, and other services from brokers who execute client trades may create conflicts of interests. When the Adviser uses client brokerage commissions to obtain research, product, or services receives a benefit because it does not have to produce or pay for the research, products, or services itself. Consequently, the Adviser has an incentive to select or recommend a broker based on its desire to receive such research, products, and services rather than in its clients’ interest in receiving most favorable execution.

Whitebox’s selection of brokers to effect securities transactions is guided by the principal objective of seeking to obtain best execution for clients. Included in “best execution” are several factors:

- best price, including commissions;
- capital position of the broker;
- ability to consummate and clear trades in an orderly and satisfactory manner;
- consistent quality of service;
- risks taken in positioning a block of securities; and/or
- broad market coverage resulting in a continuous flow of information regarding bids and offers.

“Best execution” does not necessarily mean obtaining the lowest possible price for any particular transaction. Whitebox has implemented procedures for ensuring it seeks best execution for clients.

Bunched Trades



The Adviser will attempt (to the extent appropriate, permissible and/or feasible) to aggregate multiple orders for the purchase or sale of the same security or other investment instrument ("Investment Instrument") in the same direction placed at or around the same time to achieve best execution with respect to all transactions being effected on behalf of various Client Accounts.

In general, (i) unfilled orders to buy or to sell a particular Investment Instrument in the same direction that the Adviser receives at the time a transaction in that Investment Instrument is to be executed on a particular day will be aggregated and/or (ii) any additional orders indicated by a Whitebox Portfolio Manager prior to full execution of an order will be added to the unfilled portion. Transactions will be allocated pro rata to the accounts participating promptly following execution or pursuant to predetermined allocation ratios. To the extent that orders remain unfilled following allocation, the unfilled amounts are combined with subsequent orders for allocation of subsequent transactions. The average price to a particular Client could be higher or lower than the actual price that would otherwise be paid by the client in the absence of bunching. The transaction costs incurred in the transaction will be shared pro rata based on each client's participation in the transaction.

Allocation of Investment Opportunities

The Adviser will allocate Investment Instruments generally in a manner designed to achieve proportionality of the investment as a percentage of total notional capital based on the assets of each Fund and Client Account for which a particular strategy is suitable. These allocations are generally based on pre-determined allocation schemes (as determined by the Investment Committee and documented in allocation methodologies (schemes) approved by the Chief Compliance Officer, the General Counsel or their designees). Allocations may be based on the relationship of a security held in a portfolio (e.g., for hedging purposes) or general portfolio design/construction as determined by portfolio managers and subject to review and oversight of the Investment Committee. Allocations are subject to Whitebox's ability to modify (increase, decrease or eliminate) allocations to a client based on:

- (1) the amount of cash in a Client's portfolio that is available for such investment;
- (2) the investment capacity of a Client's account;
- (3) tax or other legal considerations;
- (4) the liquidity position of a particular Client;
- (5) risk (including the potential for the proposed investment to create an industry, sector, issuer, geographic or currency imbalance in the relevant portfolio);
- (6) the suitability of the investment for a particular Client;
- (7) the sourcing of the investment opportunity;
- (8) the target return and investment hold period of a particular Client;
- (9) the investment restrictions for the Account;
- (10) any applicable transfer, assignment or minimum hold restrictions relating to the investment opportunity;
- (11) the availability and degree of leverage and any requirements or other terms of any leverage facilities available to a Client



- (12) the proximity of a Client to the end of its investment period or term (if any)
- (13) any pending, potential or anticipated redemption/withdrawal requests in respect of a Client
- the management of any actual or potential conflicts of interest
- (14) the need to rebalance established structured trades or adjust existing hedging ratios; and
- (15) whether an allocation to a particular Client will have a material or immaterial impact on its overall portfolio.

The reason(s) for any deviations from approved pre- and post-trade allocation schemes, if any, will be documented by Whitebox investment personnel and reviewed on a periodic basis by the Chief Compliance Officer, the General Counsel or their designees.

De minimis Exception

If, as a consequence of an allocation a given Account is allocated less than a predesignated de minimis unit or currency amount, then no Investment Instruments/proceeds shall be allocated to the Account, and all other Accounts are to be reallocated the additional Investment Instruments/proceeds based upon their initial allocations.

Pre-execution Allocation Changes

It is recognized that under certain circumstances, changes may need to be made to the allocation of orders after an order is submitted, but prior to execution. An allocation may be changed if it is fair and equitable and in compliance with applicable policies and procedures.

Post-execution Allocation Changes

Changes to allocations made after the order has been executed (either partially or fully) must be fair and equitable and require prior approval by the Chief Compliance Officer, the General Counsel or their designees. Requests to change an allocation must be submitted on the same trading day, if possible, or promptly after the opening of the market on the trading day following the day the order was executed.

Futures Orders

In general, pre-order allocation information for futures and commodities trades must be communicated to the executing broker prior to or contemporaneously with the placing of the trade. The above-described methodology also applies to futures and commodities trades, although no post-execution allocations may be made for aggregated futures orders.

Exceptions to Pre-Order Allocations

In certain convertible debt markets, and with respect to certain other securities, because of the short timeframe in which an investment decision must be made or for other reasons, it may be impossible or impracticable to determine an allocation prior to execution. In these situations, the responsible portfolio manager will provide allocations contemporaneously or as soon as practicable after execution, in a manner consistent with the Adviser's allocation methodology.

Trade Errors

On occasion, a mistake may occur in the execution of a trade. As a fiduciary Whitebox owes Clients duties of loyalty and trust, and as such must handle trade errors in a fair and equitable manner. Errors may occur for a number of reasons, including human input error, systems error, communications



error or incorrect application or understanding of a guideline or restriction. Examples of errors include, but are not limited to the following: buying securities not authorized for a Client's account; buying or selling incorrect securities; buying or selling incorrect amounts of securities; buying or selling in violation of internal policies.

Except as otherwise required by law, it is the Adviser's policy to net trade errors with respect to each Private Fund and any Separately Managed Account (but not among Private Funds or Separately Managed Accounts) on a quarterly basis. The Adviser addresses trade errors pursuant to the following principles:

- A trade error in one Private Fund's account or in one Separately Managed Account may be corrected through reallocations to the amounts of securities allocated to other Private Funds' accounts or to other Separately Managed Account, respectively. Such reallocations (pre-settlement disposition) or transfer (post-settlement disposition) must represent a legitimate investment decision, i.e., a trade that is deemed to be made in the best interest of the client and which would have been made regardless of whether the error had occurred, on behalf of each account involved, and then only if the reallocation or transfer is done without loss to the transferee account. Regulatory restrictions may limit post-settlement adjustments through purchases and sales among certain types of accounts. In no event will such a post-settlement adjustment involve any Private Fund that is a Plan Assets Fund subject to ERISA or a managed account subject to ERISA.
- In the case of a trade error caused by the Adviser that is discovered prior to settlement, the Whitebox portfolio manager may seek cancellation of the trade by the broker if it is documented that the price at which the trade was originally placed is not outside the spread quoted for the security at the time of cancellation. Any such error must be reported to the Chief Compliance Officer as a trade error notwithstanding cancellation of the trade.
- Except as otherwise required by law, with respect to Private Funds and any Separately Managed Accounts, trade errors resulting in losses are netted against trade errors resulting in gains within a specific Private Fund or Separately Managed Account, as applicable, as of the end of each calendar quarter. The net effect of trade errors is monitored in the trade error balance log maintained by the Chief Compliance Officer or its designee. Should the trade error balance log at the end of any calendar quarter identify a balance due to a Private Fund or any Separately Managed Account, the Adviser will reimburse such Private Fund or Separately Managed Account for such amount due. Netting of gains and losses across the Private Funds or across any Separately Managed Accounts is not permitted.
- With respect to any Private Fund that is a Plan Assets Fund subject to ERISA, trade errors resulting in losses will not be netted against trade errors resulting in gains. If a trade error results in a loss, the Adviser shall reimburse such Private Fund for the loss on a quarterly basis. If the trade error resulted in a gain, such Private Fund shall retain such gain.

Item 13 – Review of Accounts

Review

Client Accounts are reviewed by a portfolio manager on an ongoing basis. The review consists of suitability analysis, position sizing, market exposure, strategy analysis, and risk monitoring.



Settlement specialists, independent third party administrators and Whitebox Fund Accounting reconcile cash and securities on a daily basis and resolve failed trades on an as needed basis, with a written summary of their findings. Counterparty margin requirement, collateral posted and excess cash are monitored on a daily basis. This information is compiled in a written report and provided daily to the Chief Financial Officer. An independent third party administrator performs an accounting review and reconciliation monthly. A final accounting review is performed by the Chief Accounting Officer and Chief Financial Officer on a monthly basis. Separately managed accounts may receive additional review as required.

Client Accounts are also monitored on a periodic basis by the Investment Committee for consistency with Client objectives and restrictions.

Reporting

Whitebox or its designated agent provides each investor in the Private Funds with periodic reports in accordance with the terms of the relevant Confidential Offering Memorandum and the relevant limited partnership agreement or similar agreement. Separately Managed Account Clients may receive similar information in form and substance as provided in investment management agreements that would be negotiated with each such Client. Written reports may include the following:

- Weekly fund performance estimates;
- Monthly return summaries and newsletters;
- Monthly Performance Summary Reports (summarizing NAVs, returns and other key statistics);
- Monthly return contribution, attribution reports and exposure reports;
- Monthly capital activity statements;
- Monthly investor statements;
- Annual tax reporting, including PFIC reporting (if applicable);
- Annual Audited Financial Statements;
- Monthly Risk Reports;
- Quarterly performance verification reports prepared by a third-party vendor; and
- Position level transparency, prepared by the Fund Administrator for each Private Fund on a monthly basis with a one month lag.

Item 14 – Client Referrals and Other Compensation

Other than the compensation described in Items 5 and 6 herein, and the “Research and Soft Dollar Benefits” discussed in Item 12, Whitebox does not receive an economic benefit from anyone other than its Clients.

Whitebox may however enter into agreements with broker-dealers or investment advisers that are referred to as “Solicitation Agreements” or “Placement Agent Agreements” Pursuant to these agreements, Whitebox may agree to pay a percentage of the management fee and/or incentive fee collected from investors in its Private Funds to the referring broker-dealer or investment adviser.

Whitebox may utilize the services of broker-dealers who execute transactions, provide financing and securities on loan, or hold cash or short balances to provide capital introduction, marketing



assistance, consulting with respect to technology, operations, and equipment, commitment of capital, access to management, and access to deal flow. No Private Fund separately compensates any broker-dealer for any of these services.

Whitebox has retained UBS Financial Services Inc. and its affiliates (collectively, “UBSFS”) to act as a placement agent for certain of the Private Funds. Separate from its role as placement agent, certain affiliates of UBSFS may, among other things, act as prime broker or trading counterparty to the Private Funds, execute transactions at the direction of the Whitebox, provide financing and securities on loan, hold cash and short balances, as well as provide other customary services such as capital introduction, marketing assistance, consulting with respect to technology, operations, and equipment, commitment of capital, access to company management and access to deal flow. This creates a conflict of interest in that Whitebox may be incentivized to place an increased number of transactions through affiliates of UBSFS, or finance a larger portion of the assets of certain of the Private Funds, as compensation for solicitation activities. Notwithstanding the above, Whitebox has implemented procedures designed to ensure that Whitebox seeks to attain best execution for all transactions, irrespective of the degree to which UBSFS introduces potential investors for any of the Private Funds.

Item 15 – Custody

Safe Custody

Ensuring the safe custody of its client’s assets is one of the Adviser’s basic fiduciary and regulatory obligations. To that end the Adviser will, among other things:

- Only open prime brokerage, trading and counterparty arrangements with brokers and counterparties which meet the Adviser’s credit standards.
- To the extent required by law, require brokers, dealers and counterparties to maintain Client assets in segregated accounts, without commingling with other proprietary or Client funds.
- Keep all monies not on deposit with brokers, dealers or counterparties on deposit with major money center banks; and
- Maintain all accounts solely in the name of the applicable Client.

Custody of Client Assets

The Advisers Act imposes certain obligations on registered investment advisers that have “custody or possession of any funds or securities in which any client has any beneficial interest.”

An investment adviser is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has the authority to obtain possession of them, regardless of whether the exercise of that authority or ability would be lawful. For example, if an investment adviser is able to charge its fees to the actual custodian of the client’s assets and to cause the custodian to pay those fees when due, the investment adviser will be deemed to have custody or possession of the client’s funds.

Whitebox is required to maintain client funds and securities for which it has custody with a “qualified custodian”: (i) in a separate account for each client under the client’s name; or (ii) in accounts that contain only clients’ funds and securities, under the Adviser’s name as agent or trustee for its clients.



Qualified custodians include banks, broker-dealers, futures commission merchants and certain foreign financial institutions.

In addition to the requirement to use a qualified custodian (see above), Rule 206(4)-2 also imposes on advisers with custody of clients' funds or securities certain notification, account statement, and asset verification requirements. However, pursuant to Rule 206(4)-2(b)(4), the Adviser need not comply with the notification and account statement requirements, and is deemed to have complied with the asset verification requirement, with respect to the Private Funds if the relevant Private Fund is subject to audit:

- a) at least annually and distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all investors within 120 days its fiscal year end;
- b) by an independent public accountant that is registered with, and subject to regular inspection by, the PCAOB;
- c) upon liquidation and distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all investors promptly after the completion of such audit.

Whitebox does not maintain physical custody of client assets, although it is deemed by the applicable regulations to have custody of assets if Separately Managed Account Clients give it authority to withdraw fees directly from their custodial accounts. Client assets must be maintained in an account at a qualified custodian; generally a broker dealer or bank. A custodian is appointed by each Client to have possession of the assets of the account, settle transactions for the account and accept instructions from Whitebox regarding the assets in the account, subject to certain restrictions.

Whitebox urges any Separately Managed Account Clients to carefully review quarterly statements received from the designated custodian. Private Fund investors will receive audited financial statements within 120 days for the Private Fund's fiscal year end. Clients should contact Whitebox if they have any questions about their statements or if their qualified custodians stop sending them at least quarterly statements.

Collateralized Loan Obligations ("CLOs")

Neither Whitebox nor WCM is deemed, under federal securities laws, to have custody of the assets of a CLO by virtue of its status as investment manager or collateral manager. WCM does not maintain actual physical custody of any CLO assets; CLO assets are held in the custody of its trustee.

Item 16 – Investment Discretion

Whitebox has the authority to determine, without specific Client consent the securities to be bought and sold, the amount of securities to be bought and sold, the broker or dealer to be used in the transaction and the commission rates paid.

In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client. When selecting investments and determining amounts Whitebox observes the investment objective and strategies as described in the relevant Confidential Offering Memorandum/constitutional documents or Investment Management Agreement.



In some cases additional policies may be set by a Client's board or investment committee. The Adviser is generally authorized to make the following determinations, consistent with the Client's goals and policies, without Client consultation or consent before a transaction is effected:

- which securities or other investments to buy or sell;
- the total amount of securities or other investments to buy or sell;
- the broker or dealer through whom securities are bought or sold;
- the commission rates at which securities or other investment transactions for client accounts are effected; and
- the price at which securities or other investments are to be bought or sold, which may include dealer spreads or mark-ups and transactions costs.

Whitebox may act as investment manager to other clients (including funds) now or in the future and each account's investment restrictions and guidelines may differ. All investment decisions for an account are made in accordance with the investment restrictions and guidelines of that account. Investment decisions for each account are made with a view to achieving the account's investment objectives and after consideration of such factors as the account's current holdings, the current investment views of the portfolio manager, availability of cash for investment, and the size of the account's positions generally.

Item 17 – Voting Client Securities

Whitebox receives proxies from time to time with respect to investments in companies by the Client Accounts. In voting proxies, Whitebox is guided by general fiduciary principals. Whitebox's goal is to act prudently, solely in the best interest of its clients. Whitebox votes proxies in the manner that it believes is consistent with efforts to achieve a Fund's or any Separately Managed Account's stated objectives, including maximizing the value of the Client portfolio. Whitebox follows procedures that are designed to identify conflicts or potential conflicts that could arise between its own interests and those of the Client Accounts. If it is determined that any such conflict or potential conflict is not material, Whitebox may vote proxies notwithstanding the conflict. If it is determined, however, that a conflict of interest or potential conflict of interest is material, the Chief Compliance Officer will work with appropriate personnel to agree upon a method to resolve such conflict before voting proxies affected by the conflict.

Whitebox has partnered with a third party to vote all proxies or other beneficial interest in an equity security based on Glass Lewis recommendations. Whitebox supports these voting recommendations which are what it believes are to be in the best long-term economic interest of its Client AccountClient Accounts and their beneficiaries, considering all relevant factors and without undue influence from individuals or groups who may have an economic interest in the outcome of a proxy vote. Investors may obtain a copy of Whitebox's proxy voting policy or a record of Whitebox's proxy votes with respect to their account free of charge by calling 612-253-6001 or by writing to us at 3033 Excelsior Boulevard, Suite 500, Minneapolis, Minnesota 55416 or by sending an email to: invrelations@whiteboxadvisors.com.

With respect to class actions, Whitebox has appointed an unaffiliated third party, Financial Recovery Technologies ("FRT"), to monitor and file class action settlements on behalf of current Client



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Accounts. Any compensation received as the result of participation in a class action settlement shall be paid to Client Accounts pro-rata based on the percentage of the relevant holding in each portfolio. For its services, FRT will be paid based on a percentage of the proceeds recovered from a class action filing. It should be noted that the Funds bear the cost (i.e. receive a reduced amount of the class action proceeds) of any third party used for class action recovery services. Whitebox credits any class action settlements received for a Fund to current investors in that particular Fund.

Item 18 – Financial Information

In certain circumstances, registered investment advisers are required to provide financial information or disclosures about their financial condition in this Item 18. Whitebox has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.