



## **Deer Park Road Management Company, LP**

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### **BROCHURE 2A**

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This brochure provides information about the qualifications and business practices of Deer Park Road Management Company, LP. If you have any questions about the contents of this brochure, please contact our Investor Relations Department at (970) 457-4340 or e-mail us at [info@deerparkrd.com](mailto:info@deerparkrd.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or any state securities authority.

Deer Park Road Management, LP is an SEC registered investment adviser. This registration does not imply any level of skill or training. Additional information about Deer Park Road Management Company, LP is also available on the SEC's website at [www.adviserinfo.gov](http://www.adviserinfo.gov).

## 2. **Material Changes**

In 2020, the Firm completed the liquidation of its SBF Opportunities Fund and commenced management of a new Fund of One.

The Firm has also included certain risk factors relating to the Covid-19 pandemic. This global event has had a major impact on securities markets and has caused and may continue to cause significant dislocations in pricing and liquidity for instruments in which the Firm invests.

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#### 4. **Advisory Business**

Deer Park Road Management Company, LP (“Deer Park” or the “Adviser”), a Delaware limited partnership, is an alternative investment adviser focused on the structured finance segment of the global fixed income markets. Deer Park was founded in 2003 by Michael Craig-Scheckman, its current Chief Executive Officer and President. Mr. Craig-Scheckman has over 25 years’ experience managing assets in the MBS/ABS market. Scott Burg joined the Adviser in 2010. Mr. Burg has over 17 years of experience in the MBS/ABS market. Brad Craig has been with the Adviser since 2007 and currently serves as the Adviser’s Chief Operating Officer. Deer Park is owned and controlled by Michael Craig-Scheckman, Scott Burg and Brad Craig.

Deer Park aims to identify attractive investment opportunities primarily by exploiting trading and investment opportunities with a strong, but not exclusive, focus on distressed securities (including mortgage-backed and asset-backed securities, corporate debt and other credit investments). The Adviser employs a fundamental research approach on security selection in the MBS/ABS market. Specifically, with regard to asset-backed securities, security selection is based on a valuation process that exploits the disparity between the intrinsic and market value of these securities – capitalizing on the traditionally inefficient ABS / MBS marketplace. Portfolios also include derivatives, corporate debt and equities, both on a long and short basis. Investments in these securities are made on an opportunistic basis and form a large portion of the portfolio over a long period of time depending on economic conditions.

The Adviser manages one hedge fund (“Private Fund”), one private Fund of One and serves as a sub-adviser and discretionary manager of one registered mutual fund (“Mutual Fund” and together, the “Funds” or the “Clients”). One Private Fund is structured as Master Feeder vehicle with an on-shore and off-shore investment option. The Private Fund is STS Master Fund, Ltd and has \$2.5B of net assets as of 12/31/20. The Fund of One is Deer Park 1850 Fund, LP and has \$467M in net assets as of 12/31/20.

The Mutual Fund is a registered investment vehicle under the Investment Company Act of 1940, as amended, and the Securities Act of 1933, as amended (the “Company Act”). Deer Park serves as a sub-adviser to the Mutual Fund. The Mutual Fund is named the Deer Park Total Return Credit Fund (DPFNX) and had \$686M in net assets as of 12/31/20.

The Mutual Fund has greater sensitivity to liquidity concerns than the Private Funds and Deer Park manages this account to keep illiquid positions below a minimum threshold established by the Company Act and the Client.

As of December 31, 2020, Deer Park managed approximately \$3.7B on a discretionary basis. Deer Park does not manage any assets on a non-discretionary basis and does not manage wrap fee programs. (Assets under management are measured as net assets under management. Regulatory Assets Under Management, as that term is defined by the SEC, were \$4.6B on a discretionary basis as of December 31, 2020.)

## **5. Fees and Compensation**

The fees and expenses applicable to the Private Fund and the Mutual Fund managed or sub-advised by DPR are set forth in detail in each of the Private Fund's or Mutual Fund's respective offering documents. A brief summary of those fees and expenses follows. Fees and expenses on other products are negotiable.

Compensation received by the Adviser from the Private Fund comprises "Management Fees" and/or annual "Performance Allocations". Monthly Management Fees are based on a percentage of assets under management and are paid quarterly, in arrears. Management Fee rates are generally between 1.0% and 2.0% per annum. Compensation received by the Adviser from the Mutual Fund comprises solely Management Fees and generally range from 1.125%-1.85%, subject to certain fee waivers and expense sharing agreements as more fully described in the Fund's Prospectus.

The Adviser, or its Affiliates, are entitled to receive an annual Performance Allocation from the Private Fund based on a percentage of the net realized and unrealized income and capital appreciation (the "Appreciation"), if any, of the capital accounts or net asset value of the shares of the Private Fund. The Allocation is subject to a "Highwater Mark". The Allocation received by the Adviser is generally subject to a hurdle rate with a declining graduated Performance Allocation Rate once the hurdle rate is exceeded.

Certain classes of the Private Fund pay no Management Fee in return for a higher or tiered incentive fee. The Adviser has historically received an Allocation from the Private Fund of 60% of the first 4% of Appreciation and 20% thereafter in lieu of receiving a Management Fee in its private fund. The Adviser now offers in its private fund a 1% management fee and tiered incentive allocation equal to 0% on Appreciation between 0%-5%; 50% of Appreciation between 5%-9% and 25% thereafter, subject to a High Water-Mark. In return for this fee structure, the Investors will be subject to significant limitations on Redemptions. The Adviser may, in its discretion, offer investors a lower Management Fee and graduated Performance Allocation in exchange for agreeing to maintain a certain minimum balance or commit to forego the ability to redeem their investment for a certain period of time. Such minimums and lock-ups or gates may be negotiated individually with an investor or offered as a separate class in the Private Fund.

The Adviser has discretion to waive, modify or change the amount or calculation method for the Management Fee or Performance Allocation with respect to the Private Fund, Class or individual investor including affiliates or employees of the Adviser.

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

As discussed in Item 5, the Adviser or its affiliates are entitled to receive Performance Allocations from the Private Fund and the Fund of One. The Private Fund and Fund of One have different Performance Allocation calculations, and both have different Management Fees from the Mutual Fund.

As a result of managing various accounts on a side-by-side basis, the potential exists for the Adviser to seek to favor one of its clients over another in allocating investment opportunities or otherwise. Performance Allocation arrangements may create an incentive for the Adviser or its affiliates to make investments that are riskier or more speculative than would otherwise be the case if such an arrangement were not in effect, particularly in any period after losses have been suffered since losses from prior periods must be recovered before any Performance Allocation is payable. The Adviser may also invest more heavily in one of its Fund's than in others which may also serve as an incentive to favor one account over another. Management Fees for certain clients that are higher than others may create similar incentives.

Deer Park has a fiduciary duty to its clients and has adopted and implemented policies and procedures intended to address the conflicts inherent in such side-by-side management arrangements.

Trades are allocated to various accounts based on the attributes of the security and the guidelines of the Account. Often a security will be suitable to several accounts and the Adviser will aggregate its purchase or sale of such security in order to obtain best execution. In such cases, aggregated orders are allocated to in a fair and equitable manner in accordance with the Adviser's Allocation Policy.

### **Allocation Policy**

Trades are executed by Portfolio Managers, Associate Portfolio Managers or Senior Analysts (each a "Trader"). Traders at the Firm have responsibility for multiple Clients (each an "Account"). Traders execute block trades for multiple Accounts, or they may determine to execute trades separately for each Account or execute a trade for one Account and not for others. Whether to aggregate trades or place a particular security in one Account and not others will be based on a variety of factors including, but not limited to: different investment guidelines or yield targets; different cash positions; expected cash flows; expected redemptions and subscriptions; existing positions in the subject security; whether an Account is ramping up or liquidating; or other risk parameters and sizing constraints. These factors will also be considered in allocating aggregated trades amongst accounts participating in a block trade. Due to the nature of the Adviser's business and the types of securities in which the Adviser typically invests, there is no default method of allocation used (i.e., pro rata, random or rotational). In all cases, the decision to aggregate and allocate trades or to execute trades separately for any one account will be made on a fair and equitable basis; no client or Account will be systematically advantaged or disadvantaged by the Firm or any of its employees.

The effect of these decisions may, however, operate to a particular client's advantage or disadvantage. For example, if the Trader decides to purchase securities in a block trade for several Accounts but there is not a quantity of the security available in the market sufficient to satisfy all Accounts, then each Account will be allocated less of the security or pay a higher price than if it had acted alone. In this circumstance, the Account may not be able to execute an investment decision as effectively as it could have if it acted alone. The Firm may also execute trades which are not aggregated but rather executed for a specific client even where such security is suitable for other Accounts. This may occur when the one Account has an existing position that is being added to, when other Accounts do not have sufficient cash to participate in a minimum size, to avoid creating an odd lot that would have adverse liquidity characteristics or other circumstances.

## **7. Types of Clients**

The Adviser and its affiliates serve as the management company, investment adviser or sub-adviser for pooled investment vehicles. The pooled investment vehicles are either private investment vehicles ("Hedge Funds") or registered investment vehicles ("Mutual Funds"). The Hedge Funds are typically structured as domestic limited partnerships or offshore exempted companies. They can take the form of a "Master-Feeder" structure where investors invest in a Feeder Fund that invests exclusively in a Master Fund that is managed by the Adviser or can be stand-alone vehicles. Generally, limited partnership interests in any domestic limited partnerships are offered on a private placement basis, and in reliance on Section 3(c) (7) of the Company Act, to persons who generally are "accredited investors" as defined under the Securities Act of 1933, as amended (the "Securities Act"), and "qualified purchasers" as defined under the Company Act, and who are subject to certain other conditions, which are fully set forth in the offering documents for the applicable Fund. Shares in offshore Funds are generally offered to persons (x) who are not "U.S. Persons," as defined under Regulation S of the Securities Act, or who are tax-exempt U.S. Persons (or entities substantially comprised of tax-exempt U.S. Persons) on a private placement basis and in reliance on Section 3(c) (7) as described above, and (y) who are subject to certain other conditions which are fully set forth in the offering documents for the applicable Funds. Investors in the Funds include some or all of the following: institutional investors, pension and profit-sharing plans, trusts, estates, charitable organizations, high net worth individuals, corporations or business entities other than those listed previously, private investment funds or other entities. Minimum initial investment in Hedge Fund is \$3 million, subject to reduction in the discretion of the Fund. The Fund of One was structured as a standalone private investment vehicle for a single institution investor. The Mutual Fund is registered under the Company Act, and the Securities Act. The Mutual Fund is advised by advisers that are not affiliated with Deer Park Road; these unaffiliated advisers contract with Deer Park Road to manage the investments of the Mutual Fund. The Adviser may manage separate accounts for institutional advisers from time to time, but does not currently have any separate account clients. The Adviser does not manage wrap fee accounts.



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

In this section, the term Adviser is used in reference to activities undertaken by the Adviser on behalf of its clients including Funds and their underlying investors. The risks undertaken by the Adviser should be read to include risks undertaken by each investor in the Firm's products except where indicated otherwise.

### **INVESTMENT STRATEGY**

The Adviser employs a strong but not exclusive focus on distressed securities (including mortgage backed securities ("MBS") and asset-backed securities ("ABS"), corporate debt and other credit instruments). The Adviser utilizes a value oriented approach to source and manage a portfolio of opportunistic credit and other investments which the Manager anticipates will provide commensurate risk-adjusted returns and cash flows. Such MBS include residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS") that are rated below investment grade, or not rated. The Adviser also invests in other types of asset-backed or debt securities as well as equity securities and derivatives. These investments generally present a higher risk of default than securities rated as investment grade, but which the Adviser believes are undervalued. By using proprietary fundamental analysis and modeling key variables, the Adviser seeks investments expected to provide steady and substantial cash flows.

The Adviser will typically invest in both fixed and floating rate securities, as well as securities that bear no interest. Investments will include deep value, high cash flow, short duration RMBS. The Adviser invests without restriction as to issuer capitalization, country, credit quality and maturity (for fixed income securities).

The Adviser invests in discounted and deeply-discounted, asset-backed debt, predominately backed by real estate, which the Adviser anticipates will provide steady and substantial cash flows. Although the Adviser actively trades Client portfolios on an opportunistic basis, the Adviser's philosophy is based on buying securities that the Adviser is comfortable holding to term. The Adviser focuses on investing in securities backed by real estate or mortgages but will also take significant positions in equity and ETF securities (some of which are backed by gold, silver and/or mining companies), debt securities backed by corporate credit, derivatives and securities backed by other collateral, including, but not limited to, automobiles, boats, planes and credit cards.

The Investment Manager utilizes a fundamental strategy conducted through a "bottom-up" analysis to analyze the credit profile and relative value of certain credit instruments and equities, combined with a "top-down" view of opportunities, in order to identify instruments valued at less than "intrinsic" value. As a result of such analysis, the Fund will take long risk, short risk and other positions on an issuer's capital structure to seek to exploit perceived mispricings based on issuer specific valuation matrices, which examine several metrics such as enterprise value, debt to equity ratios, return on equity and asset coverage.

Certain Clients of the Adviser have the option to redeem their investments on a daily basis (Mutual Funds) while others have more limited redemption terms (Hedge Funds). Securities

purchased for Hedge Fund clients are more likely to have limited liquidity characteristics than the Mutual Fund which has limitations on the percentage of illiquid securities it can hold.

Additionally, the Adviser invests in derivatives, including without limitation, swaps, options and credit default swaps, for both hedging and speculative purposes. Subject to Client restrictions on the use of leverage, derivatives or hedging strategies in general, the Adviser currently employs high levels of derivatives for certain Clients in response to market conditions and this high level of derivatives may persist for a substantial period of time. The Adviser also employs investment in commodities for hedging and speculative purposes. Due to the highly sensitive nature of derivative pricing, high levels of derivatives may entail a high level of risk.

The Adviser seeks to derive portfolio returns through fundamental analysis and security selection. However, depending on Client guidelines and regulatory restrictions, the Adviser will incur leverage for the purpose of enhancing returns or hedging against volatility in Client portfolios. With regard to the Private Fund, leverage is defined for this purpose as the amount of borrowed money used by the Fund, adjusting for the effects of currency conversion.

Although the Adviser primarily follows a buy and hold approach to source and manage the asset-backed securities in the portfolios, the Adviser also uses a number of other investment strategies and techniques, depending on market conditions and Client restrictions, including, hedging, directional allocation, credit default swaps, short-term trading and other investment techniques and strategies to capitalize on market movements. The Adviser takes long positions and short positions in portfolio securities. The Adviser also takes long or short positions in derivative instruments, such as credit default swaps and options for hedging and speculative purposes. Current income will not be a significant criterion in the selection of most investments, but the Adviser attempts to generate cash flow (including both the payment of interest and return of principal) each month.

The Adviser expects that the Fund's portfolio will be diversified within the spectrum of investments described above; provided that the Fund is not limited in the types of investments it may make. The Fund will not utilize a set formula to determine how its assets are allocated among different classes of investments.

## **RISK OF LOSS**

**General.** Investors should understand that all investments involve risk and there can be no guaranty against loss resulting from an investment in strategies managed by the Adviser. Further, there can be no assurance that the Adviser's objectives will be achieved. As with any investment in securities, the value of and return on an investment can decrease as well as increase, depending on a variety of factors, including general economic conditions and market factors. The success of the Adviser's investment program will depend in large part on the ability of the Adviser to predict price movements of its investments as well as fluctuations in interest rates, currencies and other economic factors. There is no assurance that the Adviser's predictions will be accurate or that its investment decisions will always be profitable or correct.

**Overall Investment Risk.** All securities investments risk the loss of capital. The nature of the securities to be purchased and traded by the Adviser and the investment techniques and strategies to be employed in an effort to increase profits may increase this risk. Many unforeseeable events, including actions by various government agencies and domestic and international political events may cause sharp market fluctuations. Investors must be able to sustain substantial or total losses on the value of their investment.

**Dependence on Key Personnel.** The Adviser's investment activities depend upon the experience and expertise of its principal portfolio managers. The loss of the services of any of these principals could have a material adverse effect on its activities.

**Market Turmoil.** Asset-backed and mortgage-backed markets, including real estate markets, experienced unprecedented turmoil during the general financial and credit crisis of 2007–2009 (the “Financial Crisis”). During that time period, credit markets became illiquid, banks and other sources of credit ceased lending or significantly increased borrowing costs and equity and real estate markets lost substantial value. This market turmoil, coupled with direct government intervention in the markets through temporary bans on short selling and other actions, caused many private investment funds to suffer substantial losses. Losses by such funds, as well as losses in other portions of investors' investment portfolios and investors' liquidity needs, caused investors to request withdrawals from some of those funds. In the face of those withdrawal requests, many private investment funds were faced with two difficult choices: (i) sell their positions into illiquid markets at declining prices or (ii) implement restrictions on withdrawals (such as gates, liquidating accounts or vehicles, side pockets, designated investments and outright suspensions). The pressure was particularly acute for investment funds that implement less liquid strategies. A return of this market turmoil, or new periods of turmoil that present similar stresses on private investment funds as a result of the Covid-19 pandemic or other causes, could have an adverse effect on the Adviser's performance.

Pandemic outbreaks have contributed to and may continue to contribute to volatility in the financial markets, which may disrupt historical pricing relationships or trends, cause positions to become illiquid or negatively impact the performance of the Company. Such market turmoil has prompted certain acts of governmental intervention in response to the COVID-19 outbreak, and it is likely that additional measures will be implemented in the future. In particular, the imposition of quarantines and travel restrictions, or failures to contain the outbreak despite these measures, could materially and adversely impact the Company's investments, both in the near- and long-term. In addition, the imposition of travel restrictions (including “shelter-in-place” or “lock-down” directives) may disrupt the operations and business activities of the Investment Manager or one or more Brokers, counterparties or service providers to the Company or the Investment Manager. Such disruptions could negatively impact the ability of the Investment Manager to effectively monitor and trade the Company's investments or the ability of one or more Brokers, counterparties or services providers to the Company or the Investment Manager from providing services to the Company or the Investment Manager. Such measures could have unexpected, and potentially adverse, effects on the Company or the Investment Manager (or any Affiliates thereof), the Markets in which the Company will trade, or certain investment strategies in which the Company engages or may have otherwise engaged. It is impossible to predict what additional

interim or permanent governmental restrictions may be imposed on the markets or the effect of such restrictions on the Investment Manager's strategies.

**Illiquidity of Investments.** Certain investments typically will be assets or instruments for which no (or only a limited) liquid market exists or that are subject to legal or other restrictions on transfer. Lack of liquidity can make it difficult or impossible for the Fund to purchase or sell securities or other assets at desired prices or in desired quantities, as a result of which, among other things, it may be economically unfeasible for the Fund to recognize profits on open positions or to close out open positions against which the market is moving. In such instances, sales of illiquid instruments would be possible only at a substantial discount. In addition, such instruments would be difficult to value, and illiquidity can disconnect market values from the historical pricing indicators used in the Fund's investment analysis and determination of fair value pricing for NAV, as the fewer transactions that take place the greater the risk of market values not reflecting true pricing relationships or fair value. Many of the securities in which the Fund invests will be illiquid and not traded in any public market. In addition, in times of extreme market disruption, there may be no market at all for one or more asset classes, potentially resulting in the inability to dispose of its assets for an indefinite period of time.

**Developments in Asset-Backed and Mortgage Credit Markets.** Asset-backed and mortgage credit market illiquidity makes the analysis of issuer and servicer credit-worthiness problematic. For example, many highly rated issuers depend on the asset-backed and mortgage credit markets to finance at short-term rates their longer-term debt obligations. Ordinarily, this is a routine and ongoing refinancing process. However, during the Financial Crisis poor performance of subprime home equity loans and other asset-backed securities led to market turmoil and resulted in price volatility and ratings downgrades, a situation which may recur due to increasing default rates or a sudden and sustained increase in interest rates. In addition to attempting to predict the default rates on the assets underlying mortgage-backed securities acquired by the Adviser, the credit worthiness and viability of the servicers of such mortgages are also significant risks. Illiquidity and unpredictability in these markets make it difficult to determine whether such servicers have sufficient capital and adequate staffing levels to fulfill their servicing obligations and the extent to which such servicers are subject to regulatory risks and risk of error. A credit event at or other failure by a servicer could result in losses to the Fund.

**General Real Estate Considerations.** Transactions in the real estate sector are subject to varying degrees of risk. Values are affected by a number of factors, including changes in the general economic climate due to the Covid-19 pandemic or other causes, local conditions (such as an oversupply of space or a reduction in demand for space), the quality of management, competition based on rental rates, attractiveness and location of the properties, financial condition of tenants, buyers and sellers of properties, quality of property maintenance, insurance and management services and changes in operating costs. Values are also affected by such factors as government regulations (including those governing usage, improvements, zoning and taxes), interest rate levels and the availability of financing and potential liability under changing environmental and other laws. While direct real estate investment is not intended to be the focus of the Adviser, these factors may influence the value of the real estate underlying the securities in which the Adviser invests.

**General Credit Market Risks.** The Adviser attempts to take advantage of dislocations in the credit markets stemming from a number of factors, including uncertainty with regard to the level and timing of delinquencies and losses on many types of mortgage loans. The Adviser generally attempts to acquire securities trading at what it determines to be a significant discount to such securities' intrinsic value. If the cash flows on the loans underlying residential mortgage-backed securities or commercial mortgage-backed securities are not realized according to the Adviser's expectations due to defaults on the underlying assets (typically mortgages), the Adviser's strategy will fail. The identification of attractive investment opportunities in credit markets is difficult and involves a significant degree of uncertainty. The credit markets, and the mortgage-backed securities markets in particular are, in general, highly susceptible to interest-rate movements, government interference, economic news, and investor sentiment. The commercial mortgage-backed securities market has been particularly affected by the Covid-19 pandemic and suffer particularly large losses from the economic fallout. The Adviser's profit potential may be adversely impacted by increases in market volatility.

**Unlisted or Restricted Securities; Limited Liquidity.** Although the Adviser does invest in listed securities, the Adviser primarily invests in unlisted or unregistered securities. The Adviser also invests in restricted securities, particularly for Private Fund clients. Because of the absence of any substantial trading market for these investments and, as to unregistered securities, the imposition of restrictions on resale, the Adviser would take longer to liquidate these positions than would be the case for publicly-traded securities and may not be able to do so at favorable prices. Even though these securities may be resold in privately negotiated transactions, the prices on these sales could be less than those originally paid by the Adviser. In addition, issuers whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly-traded securities. Further, illiquid securities pose valuation difficulties that could result in greater fluctuations in value than would otherwise be the case with more liquid securities.

**Liquidity Risk.** Liquidity risk exists when particular investments would be difficult to purchase or sell, possibly preventing the Adviser from selling such illiquid securities at an advantageous time or price, or possibly disposing of other investments at unfavorable times or prices in order to satisfy its requests for redemptions from investors in the Private Fund, Fund of One or the Mutual Fund. Investors in the Private Fund may not be able to dispose of their interests except by means of the redemption privilege and may, in certain circumstances and with their consent, receive securities rather than cash in exchange for their interests. Redemptions may be subject to an overall limit of the investor's investment in the Fund on any Redemption Date, and redemptions are subject to additional restrictions as set forth herein and in the Offering Memorandum of the Private Fund or the terms of the Fund of One. Additionally, certain classes of investors have greater or different redemption privileges than others and investors in the Private Fund have different redemption and liquidity terms than the investor in the Fund of One and therefore, in times of market stress and otherwise, such investor or investors would be able to redeem their interests at times when others cannot.

**Internal Pricing.** The Adviser primarily utilizes valuations of securities obtained from outside

pricing sources, including SitusAMC (formerly Mountainview IPS), Intercontinental Exchange (formerly Interactive Data Corporation), Bloomberg and others. From time to time the outside pricing sources will not be in a position to provide current, reliable pricing for securities in which the Adviser is interested or the Adviser will not agree with the pricing received. In these instances, the Adviser will use its internal prices for a security held in a Private Fund: provided that (i) no more than 10% of any Private Fund's Net Asset Value will be priced using the Adviser's internal prices; and (ii) the Adviser will not use an internally generated price for any security that is over 0.25% of the Private Fund's Net Asset Value unless using an internal price is specifically approved by the Firm's Pricing Committee. Such approval will generally not be granted unless there are no pricing sources that provide reasonable pricing for such security, in the judgement of the Firm. Internal prices of the Adviser will generally not be used for any securities held in a Mutual Fund but may be used from time to time if there are no pricing sources that provide reasonable pricing for such security, in the judgement of the Firm. Prices determined by the Adviser use inputs that are unobservable and significant to the overall fair value measurement. There can be no guarantee that such internal pricing will be accurate or reliable.

**Valuation of the Fund's Investments.** The Fund's assets are subject to significant valuation uncertainty. Notwithstanding this risk, the Fund will continue to accept Subscriptions and, pay Redemption Proceeds and make Management Fee and Incentive Allocation calculations based on the stated Net Asset Value of the Fund. The value of an investment determined in accordance with the Investment Manager's valuation policy may differ materially from the value that could have been realized or previously had been realized in the market in an actual sale or transfer for a variety of reasons. The Adviser invests in assets, which by their very nature are extremely difficult to accurately value by independent pricing sources. Valuation of the investments involve uncertainties and the exercise of judgment, and if such valuations should prove to be incorrect, the net asset value of Client Funds would be adversely affected. Independent pricing information at times will not be available regarding certain of the securities and other investments. To the extent that the value assigned by a Fund to any such investment differs from the actual value, the Net Asset Value per interest may be understated or overstated, as the case may be. However, the Fund will continue to process subscriptions and redemptions at the stated NAV.

The Adviser invests in securities categorized as Level 1, 2, or 3 under the Financial Accounting Standards Board's Topic ASC 820 "Fair Value Measurements and Disclosures". Level 2 and 3 securities purchased by the Adviser will generally be priced, whether by the Manager or by third party pricing sources, using data models that utilize assumptions as to the future cash flows and rates of return relating to the securities. There can be no guarantee that such model-based pricing will be accurate or reliable.

In light of the foregoing, there is a risk that an investor in a Fund who redeems all or part of its investment while the Fund holds such investments will be paid an amount less than it would otherwise be paid if the actual value of such investments is higher than the value designated by the Fund. Similarly, there is a risk that such investor might, in effect, be overpaid if the actual value of such investments is lower than the value designated by the Fund. In addition, there is risk that an investment in the Fund by a new investor (or an additional investment by an existing investor) could dilute the value of such investments for the other investors if the actual value of such investments is higher than the value designated by the Fund. Further, there is risk that a

new investor in a Fund (or an existing investor in a Fund that makes an additional investment) could pay more than it might otherwise if the actual value of such investments is lower than the value designated by the Fund.

**Investments Subject to Gapping Risk.** Certain of the Fund's investments are subject to litigation with binary outcomes in which there may potentially be a material and abrupt adjustment to Net Asset Value (a "gapping" Net Asset Value). The outcome of litigation is usually unpredictable, and such proceedings may continue without resolution for long periods of time. While the market prices of such investments may be affected by the perceived change in probability of a certain outcome, until there is a final resolution, there is a material potential uncertainty in the Net Asset Values as currently determined. Other investments are highly sensitive to dramatic changes in the assumptions regarding performance of the pool of mortgages collateralizing the security in response to fundamental or macro-economic factors. The change in these assumptions can unfold over long periods of time or can change suddenly over relatively short periods of time. Market participants may incorporate such changes slowly over time, or suddenly, over relatively short periods time. When buyers and sellers incorporate such changes over short periods of time, there may potentially be a material and abrupt adjustment to Net Asset Value that can also cause a Gapping Net Asset Value. Subscriptions and Withdrawals will, however, be processed without factoring in any such "gapping" (which the Investment Manager believes cannot be reasonably predicted, much less quantified). As a result, subscribing and Withdrawing Limited Partners are subject to the risk of economic dilution, *i.e.*, to the risk of a subscription or Withdrawal being processed in accordance with a Net Asset Value which is suddenly and materially changed by the outcome of a certain event. The risk of such economic dilution will typically increase the nearer the relevant litigation comes to its "decision date."

**Possible Effect of Substantial Redemptions.** Substantial redemptions of capital in the Private Fund, Fund of One or Mutual Fund could require the redeeming Fund to liquidate its positions more rapidly than otherwise desired in order to raise the cash necessary to fund the redemptions. Illiquidity in certain securities could make it difficult for any Fund to liquidate positions on favorable terms, which could result in losses or a decrease in the Net Asset Value of such Fund. Substantial redemption activity in any one Fund, could also affect the value of the securities, and thus NAV, of the other Funds managed the Firm.

**Asset-Backed Securities/Mortgage-Backed Securities.** The Adviser invests primarily in mortgage-backed securities, a type of asset-backed securities. Asset-backed securities, including mortgage-backed securities, are obligations or debt securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from underlying financial assets. Holders of the asset-backed securities, including mortgage-backed securities, bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. In addition, concentration of asset-backed securities of a particular type, such as mortgage-backed securities, as well as concentrations of asset-backed securities issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic regions, may subject the investors to additional risk. Investing in 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 defaults as well as the risk of investing in real estate. Mortgage-backed securities generally provide for the payment of interest and principal 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 or other assets. As a result of prepayments, the Adviser may reinvest assets at an inopportune time, which may expose Investors to a lower rate of return. The rate of prepayments on underlying mortgages affects the price and volatility of a mortgage-backed security and may have the effect of shortening or extending the effective maturity beyond what was anticipated. Further, different types of mortgage-backed securities are subject to varying degrees of prepayment risk. The rate of principal payments on mortgage loans is influenced by a wide variety of economic, geographic, social and other factors, including general economic conditions, the level of prevailing interest rates, the availability of alternative financing and homeowner mobility. 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. Increasing rates of delinquencies, foreclosures and other losses on mortgages could, in turn, adversely affect certain securities in which the Adviser invests. During periods of market disruption, investments in the credit markets have historically incurred, and are likely in the future to incur, major losses.

**Residential Mortgage-Backed Securities.** There have been and continue to be severe disruptions in the mortgage market in the United States. Many of the residential mortgages originated in recent years were sold to the capital markets through securitizations, resulting in the originators of these mortgages transferring the originators' exposure to the credit risk of the mortgage borrowers to the investors in these securitizations. As a result, it is reasonable to assume that the originators could have financial incentives to maximize the amount of loans originated irrespective of the credit quality of the borrowers.

The underwriting standards for "sub-prime" and "Alt-A" loans are more flexible than the standards generally used by lenders for borrowers with unblemished credit histories with regard to the borrower's credit standing and repayment ability. Borrowers who qualify generally have impaired credit histories, which may include a record of major derogatory credit items such as outstanding judgments or prior bankruptcies. In addition, they may not have the documentation required to qualify for a standard mortgage loan. A sharp increase in the rate of delinquencies amongst subprime, Alt-A and some prime loans began in 2007 and contributed to the general crisis in the credit and general financial markets. A significant amount of residential mortgage-backed securities continue to trade at prices that represent a substantial discount to their outstanding principal amount.

The underwriting guidelines pursuant to which the residential mortgage-backed securities were originated do not prohibit a borrower from obtaining, at the time of origination of the first-lien mortgage loan, additional financing which is subordinate to that first-lien mortgage loan. High loan-to-value ratios may make it more difficult for a borrower to make payments under the related mortgage loans. Since 2007, periods of falling U.S. housing values have been accompanied by widespread defaults on home mortgages and the related residential mortgage-backed securities.



Since 2007, several residential mortgage loan originators experienced serious financial difficulties and, in some cases, bankruptcy. Numerous laws, regulations and rules apply to the lenders and servicers of mortgage loans. Enforcement actions and other litigation have been brought against numerous mortgage lenders and servicers, resulting in materially increased restrictions on their activities and an environment that may make it more difficult for creditors to collect or foreclose on mortgages in their portfolios. In addition, numerous laws, regulations and rules related to the servicing of mortgage loans, including foreclosure actions, have been proposed and/or enacted recently by federal, state and local governmental authorities, and certain major mortgage loan originators have recently voluntarily imposed moratoriums on foreclosures in response to the Covid-19 pandemic. Such laws, regulations and rules, as well as voluntary foreclosure moratoriums, may delay the foreclosure process, reduce payments by borrowers or increase reimbursable servicing expenses, all of which are likely to result in delays and reductions in the payments on the mortgage-backed securities. Investors bear the risk that such, and future, developments will result in losses on their investments, whether due to delayed or reduced distributions or reduced market value.

**Commercial Mortgage-Backed Securities** Commercial mortgage-backed securities represent interests in (or are secured by) commercial mortgage loans. Commercial mortgage-backed securities are directly affected by payments, defaults and losses on the underlying commercial mortgage loans.

Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but rather is payable at maturity (as a “balloon payment”). Consequently, repayment of the loan principal often depends upon the future availability of refinancing from existing or alternative lenders and/or upon the current value and saleability of the real estate.

Commercial mortgage loans underlying commercial mortgage-backed securities are generally secured by income producing property, such as multi-family housing or commercial property. The ability of a borrower to repay a loan secured by an income producing property typically depends primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. In the case of certain commercial mortgage loans, repayment of loans secured by commercial and multi-family properties depends upon the ability of the related real estate project to generate income sufficient to pay debt service, operating expenses and leasing commissions and to make necessary repairs, tenant improvements and capital improvements, and in the case of loans that do not fully amortize over their terms, to retain sufficient value to permit the borrower to pay off the loan at maturity through a sale or refinancing of the mortgaged property. In general, incremental risks of delinquency, foreclosure and loss with respect to an underlying commercial mortgage loan pool may be greater than those associated with residential mortgage loan pools.

Commercial mortgage-backed securities may be backed by an underlying mortgage pool of only a few mortgage loans. Commercial real estate lending generally is viewed as exposing a lender (and the related commercial mortgage-backed securities) to a greater risk of loss than certain

other forms of lending because it typically involves making larger loans to single borrowers or groups of related borrowers. Commercial mortgage-backed transactions resemble traditional non-recourse secured loans.

The value of the income producing property underlying commercial mortgage-backed securities is directly related to the net operating income derived from such property. If a commercial mortgage loan is in default, foreclosure on such commercial mortgage loan is usually a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted commercial mortgage loans or foreclosed properties is very limited.

Additional risks may be presented by the type and use of the particular commercial property underlying the commercial mortgage-backed securities acquired. Many of such properties are regulated or subject to contractual arrangements which could be terminated, in each case, substantially reducing the value of the property.

A commercial property may not be readily convertible to an alternative use if the operation of such property for its original purpose becomes unprofitable.

Commercial mortgage-backed securities purchased by the Adviser may from time to time be backed by mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. Such commercial mortgage-backed securities are highly susceptible to geographic as well as overall market risk.

Certain of the mortgage loans underlying the commercial mortgage-backed securities are made to borrowers organized outside of the United States and/or secured by property located outside the United States. The bankruptcy and foreclosure procedures under the laws of such countries may be materially less protective of the commercial mortgage-backed securities holder than those applicable in the United States.

Most commercial mortgage loans underlying commercial mortgage-backed securities are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related commercial mortgage-backed securities are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of commercial mortgage-backed securities may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed-in-lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks and governmental disclosure requirements with respect to the condition of the property may make a third-party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related commercial mortgage-backed securities. Revenues from the assets underlying such commercial mortgage-backed securities may be retained by the borrower, and

the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

Certain of the risks described above under “Residential Mortgage-Backed Securities” above also apply to commercial mortgage-backed securities because of their impact on real estate, servicers and originators generally.

**Mortgage Default Rates.** The default rate on the mortgages underlying many of the types of mortgage-backed securities to be acquired by the Adviser has risen dramatically since 2007. The Adviser invests in mortgage credit instruments which it believes to be undervalued, only to see such values erode further. It is not possible to predict when, if ever, the mortgage market will return to historical default rates.

**Reliance on Mortgage Underwriters and Servicers.** The likelihood of mortgage-backed securities being paid is based entirely on payments being made on the underlying mortgages (the default rate) and the loss severity rate on foreclosed mortgages. The quality of the servicing — which will include modifying underlying mortgages in an effort to rehabilitate and resell them as well as foreclosing on the underlying collateral — can materially affect the amounts due on the investments. The Adviser must rely on third parties to service the mortgages underlying the mortgage-backed securities, and will have no control over such services.

**Collateralized Loan Obligation Investment-Related Risks.** The market value of collateralized loan obligations (“CLOs”) will generally fluctuate with, among other things, the financial condition of the obligors on the underlying debt obligations or, with respect to synthetic securities, of the obligors on or issuers of the reference obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Prospective investors must understand that certain investments (*e.g.*, bank loans and high-yield and mezzanine debt securities) may constitute all or a significant portion of the underlying securities held by a CLO, synthetic security or other investments and that CLOs are therefore subject to risks particular to such securities.

CLOs are subject to credit, liquidity and interest rate risks. In particular, investment-grade CLOs will have greater liquidity risk than investment-grade governmental or corporate bonds. There is no established, liquid secondary market for many of the CLO securities the Adviser purchases. The lack of such an established, liquid secondary market may have an adverse effect on the market value of such CLO securities and the Adviser’s ability to sell them. Further, CLOs will be subject to certain transfer restrictions that will further restrict liquidity. Therefore, no assurance can be given that if the Adviser wished to dispose of a particular CLO, it could dispose of such an investment at the previously prevailing market price. In fact, the CLO market saw significant disruptions and reduced liquidity in the Financial Crisis and the Adviser expects to see further disruptions in this market.

In early 2020, the Covid-19 pandemic caused a swift and sudden downturn in the global economy. This may result in a dramatic deterioration in the financial condition of many companies and obligors. Negative economic trends, either globally, nationally or in specific geographic areas of the United States, could result in an increase in loan defaults and delinquencies. There is a material possibility that economic activity will be volatile or will slow significantly, and the underlying securities held by CLOs will likely be significantly and negatively impacted by such conditions.

The performance of CLOs will be adversely affected by macroeconomic factors, including: (i) general economic conditions affecting capital markets and participants therein; (ii) economic downturns and uncertainties affecting economies and capital markets worldwide; (iii) the effects of, and disruptions and uncertainties resulting from, terrorist attacks; (iv) recent concern about financial performance, accounting and other issues relating to various publicly traded companies; (v) recent and proposed changes in accounting and reporting standards and bankruptcy legislation; and (vi) legislative and regulatory actions by the United States federal government or any U.S. regulatory body.

The pandemic has also adversely affected the functioning of financial markets, including credit markets generally and the leveraged loan market specifically, which have experienced significant declines, high volatility and reductions in liquidity. This volatility, if it continues, could have an adverse impact on obligors of the underlying securities and on those obligors' businesses and results of operations. All of these circumstances could have an adverse impact on the value of the underlying securities, the ability of obligors to make timely payments on the underlying securities, the value and liquidity of CLOs, and the ability for CLOs to acquire and sell collateral and/or make payments or distributions on issued notes. These conditions may continue or worsen and may lead to ratings downgrades and defaults on the underlying securities and on CLOs, which may in turn affect their value and reduce or eliminate their liquidity. Any decrease in market value of the underlying securities that could be obtained upon their sale could ultimately affect the CLO issuer's ability to pay in full or redeem its issued notes.

CLOs predominantly pay interest based upon the London Interbank Offered Rate ("LIBOR") and may suffer adverse consequences from its performance, the elimination or modification, or potential elimination or modification. Upon certain events, CLOs may change the benchmark interest rate paid on CLO securities away from LIBOR. During certain periods, LIBOR has experienced high volatility, and similar volatility is likely with any other benchmark rate. If Libor is discontinued as a benchmark rate, it may cause one or more of the following to occur: (i) increase the volatility of LIBOR prior to the consummation of any such change, (ii) increase interest rate mismatch between the underlying securities held by a CLO and the CLO securities the Advisers may purchase, (iii) increase pricing volatility with respect to the underlying securities, or (v) negatively impact the market value and liquidity of CLOs. If Libor is eliminated as a benchmark rate, it is uncertain whether broad replacement conventions in the leveraged loan and CLO markets will develop and, if conventions develop, what those conventions will be and whether they will create adverse consequences for the CLOs the Adviser may purchase.

**Derivative Instruments.** The Adviser uses various derivative instruments, including futures, options, forward contracts, swaps and other derivatives which are generally volatile and speculative. Certain positions are subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. Use of derivative instruments presents various risks, including the following:

*Tracking* – When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the Adviser from achieving the intended hedging effect or expose the portfolio to the risk of loss.

*Liquidity* – Derivative instruments, especially when traded in large amounts, are not liquid in all circumstances, so that in volatile markets the Adviser may not be able to close out a position without incurring a loss. In addition, daily limits on price fluctuations and speculative positions limits on exchanges on which the Adviser may conduct its transactions in certain derivative instruments may prevent prompt liquidation of positions, subjecting the portfolio to the potential of greater losses.

*Leverage* – Trading in derivative instruments can result in large amounts of implied leverage. Such implied leverage may not be captured by the Fund's leverage restriction unless supported by directly borrowed funds. Thus, the implied leverage offered by trading in derivative instruments tend to magnify the gains and losses experienced by investors and could cause wider fluctuations than would be the case if the Adviser did not use the implied leverage feature inherent in derivative instruments.

*Over-the-Counter Trading* – Derivative instruments that are purchased or sold for the portfolio include instruments not traded on an exchange. Over-the-counter ("OTC") options, unlike exchanged-traded options, are two-party contracts with price and other terms negotiated by the buyer and seller. The risk of non-performance by the obligor on such an instrument is greater, and the ease with which the Adviser can dispose of or enter into closing transactions with respect to such an instrument is less than, in the case of an exchange-traded instrument. In addition, significant disparities may exist between "bid" and "asked" prices for derivative instruments that are not traded on an exchange. Derivative instruments not traded on exchanges are also not subject to the same type of government regulation as exchange traded instruments, and many of the protections afforded to participants in a regulated environment are not available in connection with such transactions.

However, a substantial portion of OTC derivatives are executed in regulated markets and submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing are subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as margin requirements mandated by the CFTC, SEC and/or federal prudential regulators. OTC derivatives dealers also typically demand the unilateral ability to increase collateral requirements for cleared OTC trades beyond any regulatory and clearinghouse

minimums. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives, and new requirements apply to the holding of customer collateral by OTC derivative dealers. These requirements may increase the amount of collateral required and the costs associated with providing it. OTC derivative dealers also are required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations. This has increased and will continue to increase the OTC derivative dealers' costs, and these increased costs are generally passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the imposition of new or increased fees, including clearing account maintenance fees.

With respect to cleared OTC derivatives, the Adviser does not face a clearinghouse directly but rather will do so through an OTC derivatives dealer that is registered with the CFTC or SEC and that acts as a clearing member. The Adviser faces the indirect risk of the failure of another clearing member customer to meet its obligations to its clearing member. Such scenario could arise due to a default by the clearing member on its obligations to the clearinghouse triggered by a customer's failure to meet its obligations to the clearing member.

The CFTC also now requires certain derivative transactions that were previously executed on a bi-lateral basis in the OTC markets to be executed through a regulated futures or swap exchange or execution facility. The SEC has also imposed similar requirements on certain security-based derivatives. Such requirements may make it more difficult and costly for investment funds to enter into highly tailored or customized transactions. They may also render certain strategies in which the Adviser might otherwise engage impossible or so costly that they will no longer be economical to implement.

OTC derivative dealers are now required to register with the CFTC and will ultimately be required to register with the SEC. Registered swap dealers will also be subject to new minimum capital and margin requirements and are subject to business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest and other regulatory burdens. These requirements further increase the overall costs for OTC derivative dealers, which costs may be passed along to market participants as market changes continue to be implemented.

Although many OTC derivative transactions previously entered into on a principal-to-principal basis must now be submitted for clearing by a regulated clearinghouse, certain of the derivatives that may be traded by the Adviser still remain principal-to-principal or OTC contracts entered into privately. The risk of counterparty nonperformance can be significant in the case of these OTC instruments, and "bid-ask" spreads may be unusually wide in these heretofore substantially unregulated markets. While the evolving regulatory regime relating to derivatives is intended in part to reduce these risks, its success in this respect may not be evident for some time.

**Distressed Securities.** The Adviser purchases securities and other obligations of companies that are experiencing significant financial or business distress, including companies in weak and/or deteriorating financial condition, experiencing poor operating results, needing substantial

capital investment, perhaps having negative net worth, facing special competitive or product obsolescence problems or involved in bankruptcy or other reorganization and liquidation proceedings. Although such purchases may result in significant returns, they involve a substantial degree of risk and may not show any return for a considerable period of time. In fact, many of these instruments ordinarily remain unpaid unless and until such companies reorganize and/or emerge from bankruptcy proceedings and, as a result, may have to be held for an extended period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies or sovereign issuers experiencing significant business and financial distress is unusually high.

There is no assurance that the Adviser will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. The completion of debt and/or equity exchange offers, restructurings, reorganizations, mergers, takeover offers and other transactions can be prevented or delayed, or the terms changed, by a variety of factors. If a proposed transaction appears likely not to be completed or in fact is not completed or is delayed, the market price of the investments purchased by the Adviser may decline sharply and result in losses which could have a material adverse effect on the performance realized by investors. Under such circumstances, the returns generated from such investments may not compensate investors adequately for the risks assumed, which could have a material adverse effect on their performance. Additionally, it is frequently difficult to obtain accurate information as to the condition of such entities. Securities issued by distressed companies or sovereign issuers may have a limited trading market, resulting in limited liquidity. As a result, the Adviser may have difficulties in valuing or liquidating positions. 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 offer 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.

Troubled company and other asset-based investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by the Adviser. To the extent that the Adviser becomes involved in such proceedings, it may require a more active participation in the affairs of the issuer than that assumed generally by an investor. In addition, involvement by the Adviser in an issuer's reorganization proceedings could result in the imposition of restrictions limiting the Adviser's ability to liquidate its position in the issuer. Further, when trading distressed securities, litigation is sometimes required. Such litigation can be time-consuming and expensive and can frequently lead to unpredicted delays or losses.

Debt acquired by the Adviser that is rated below "investment grade" or is unrated faces ongoing uncertainties and exposure to adverse business, financial or economic conditions and the issuer's failure to make timely interest and principal payments. The market values of certain of these debt securities may reflect individual corporate developments. It is likely that a major economic recession could have a materially adverse impact on the value of such securities. In addition, adverse publicity, and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of these debt securities.

**Short Sales.** Short sales by the Adviser create opportunities but, at the same time, involve special risk considerations and may be considered a speculative technique. Short sales theoretically involve unlimited loss potential, as the market price of securities sold short may increase continuously, although the Adviser may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions the Adviser might have difficulty purchasing securities to meet its short sale delivery obligations and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales. Short sales may be used with the intent of hedging against the risk of declines in the market value of the Adviser's long portfolio, but there can be no assurance that such hedging operations will be successful.

**Risks of Execution of Investment Strategies.** The Adviser will invest in a number of securities and obligations that entail substantial inherent risks. Although the Adviser will attempt to manage those risks through careful research, ongoing monitoring of investments and appropriate hedging techniques, there can be no assurance that the securities and other instruments purchased by the Adviser will in fact increase in value or that significant losses will be incurred.

**Hedging.** Although the Adviser will attempt, for certain Clients, to hedge its exposure to specific positions, or to the portfolio as a whole, it will not always be possible fully to hedge risk from such positions or any other position. In addition, the Adviser takes positions based on the expected future direction of the markets without fully, or even partially, hedging the market risks. Investors should be aware that, while hedging techniques may generate higher returns than traditional investments, losses associated with them are also likely to be greater than losses from traditional investments. The use of hedging techniques is designed to decrease the usual market risks associated with traditional, underlying investments. To the extent, however, that the Adviser uses hedging techniques and the underlying investments increase in value, returns on the underlying investments will not be as great as it would have been if the hedge was not put in place. Further, if the Adviser were to apply a hedge at an inappropriate time or evaluate market conditions incorrectly, such strategies could lower returns more than if they had not been used or even result in losses. Losses could also be experienced if the prices of options or futures positions are poorly coordinated with its other investments.

**Currency Risks.** A portion of the Adviser's assets are generally invested in securities denominated in various currencies and in other financial instruments, the price of which is determined with reference to such currencies. The account of investors will generally be valued in U.S. Dollars. To the extent unhedged, the value of investors' net assets will fluctuate with U.S. Dollars exchange rates as well as with price changes of their investments in the various local markets and currencies. Forward currency contracts and options are utilized to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

**Interest-Rate Exposure.** The Adviser is exposed to interest rate risk in several respects. Many debt instruments are subject to declines in value if interest rates increase, while others decline in



value as interest rates decrease. With respect to credit instruments, there is the further concern that the likelihood of default on the mortgages, leases, etc. increases when interest rates rise. Also, the likelihood of mortgage refinancings and prepayments diminishes as interest rates rise, increasing the duration of the mortgage-backed securities held by the Adviser, further decreasing their value as well as their sensitivity to further interest-rate rises and potential defaults.

**High-Yield Securities.** The Adviser invests in “high-yield” bonds and preferred securities which are rated in the lower rating categories by the various credit rating agencies or in comparable non-rated or unrated securities. Securities that are in the lower rating categories or unrated are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated or unrated securities, the yields and prices of such securities fluctuate more than those for higher-rated securities. The market for lower-rated or unrated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity, and investor perceptions about lower-rated or unrated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of these securities.

**“Principal Only” and “Interest Only” Securities.** The Adviser invests in derivative mortgage-backed securities such as principal only securities (“POs”) and interest only securities (“IOs”) which are more exposed to mortgage repayments and which therefore generally involve a greater amount of risk than traditional debt securities. Small changes in the repayment rates can significantly impact the cash flow and the market value of these securities.

The risk of faster than anticipated prepayments can significantly impact the cash flow and the market value of IOs. The risk of faster than anticipated prepayments generally adversely affects IOs, “super floaters” and premium priced mortgage-backed securities. The risk of slower than anticipated prepayments generally adversely affects POs and floating-rate securities (subject to interest rate caps, support tranches and discount priced mortgage-backed securities). Faster than anticipated prepayments threaten IOs with the risk that the underlying mortgages will be prepaid causing the IOs to cease paying any further interest and to become worthless. Slower than anticipated prepayments threaten POs with being outstanding for an unexpectedly long period and at an increasingly below-market interest rate.

Inverse IOs, in addition to the aforementioned risks of traditional IOs, have coupon payments that vary inversely with short-term interest rates. Small rises in short-term interest rates may dramatically reduce or stop mortgage interest payments to these securities and thereby impair or extinguish their value.

**Credit Default Swap Agreements.** The Adviser’s investment program includes credit default swap agreements. The “buyer” in a credit default contract is obligated to pay the “seller” a periodic stream of payments over the term of the contract in return for a contingent payment

upon the occurrence of a credit event with respect to an underlying reference obligation. Generally, a credit event means bankruptcy, failure to pay or obligation acceleration. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the “par value” (full notional value less any recovery) of the reference obligation. The contingent payment may be a cash settlement or physical delivery of the reference obligation in return for payment of the face amount of the obligation. The Adviser may be either the buyer or seller in the transaction. If the Adviser is a buyer and no credit event occurs, the Adviser may lose its investment (or premium) and recover nothing. However, if a credit event occurs, the buyer typically receives full notional value less any recovery for a reference obligation that may have little or no value. As a seller, the Adviser receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the seller may pay the buyer the full notional value less any recovery of the reference obligations.

Credit default swaps involve greater risks than if the Adviser had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and credit risk. A buyer also may lose its investment and recover nothing should no credit event occur. If a credit event were to occur, the value of the reference obligation received by the seller, coupled with the periodic payments previously received, may be less than the full notional value (less any recovery) it pays to the buyer, resulting in a loss of value.

Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact the Adviser’s ability to otherwise productively deploy any capital that is committed with respect to such contracts.

Credit default swaps have synthetic leverage, meaning that their value is highly sensitive to changes in the value of the underlying debt. In other words, credit default swap values move significantly more than traditional bond prices in response to credit market fluctuations. Accordingly, even though the market value of a credit default swap portfolio is used to determine leverage, the disproportionate impact of the credit default swap exposure may cause the Adviser’s investment program to take on the profile of a much more highly leveraged investment program and change its focus from long credit to short derivative for a period of time. Because of the inherent synthetic leverage, a credit default swap position can amplify profits and losses, and increase volatility.

**Options.** The Adviser buys and sells (writes) both call options and put options on either a covered or an uncovered basis. The value of options is materially affected by market volatility. Were the Adviser to incorrectly forecast near-term market volatility, substantial losses could be incurred on the options. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price, which risk is theoretically unlimited. OTC options also involve counterparty solvency risk.

**Futures Contracts.** The Adviser may trade futures contracts, primarily for hedging purposes. Trading in futures contracts is a specialized activity that may entail greater than ordinary investment risks. Futures markets are volatile and are influenced by factors, such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. In addition, because of

the low margin deposit normally required in futures trading, a high degree of embedded leverage is typical of a futures trading account. Consequently, a relatively small price movement in a futures contract may result in substantial losses to the trader. Futures trading may also be illiquid because certain futures exchanges do not permit trading in a particular type of future beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits, which conditions have in the past sometimes lasted for several days in certain contracts, the Adviser could be prevented from promptly liquidating unfavorable positions and thus be subject to substantial losses.

**Options on Futures and Commodities.** A large number of options on futures contracts and physical commodities have been approved for trading on and off exchanges. Each such option is a right, purchased for a certain price, to either buy or sell the underlying futures contract or physical commodity during a certain period of time for a fixed price. Such trading involves risks substantially similar to those involved in trading futures and forward contracts in that options are speculative and highly leveraged. Specific market movements of the instruments underlying an option cannot accurately be predicted. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option is subject to the risk of loss resulting from the difference between the premium received for the option, the strike price of the option and the price of the instrument underlying the option which the writer must purchase or deliver upon exercise of the option.

Furthermore, the CFTC has enacted rules requiring registration as a commodity pool operator for many managers that previously relied upon exemptions from such registration, as well as significant new reporting requirements for commodity pool operators and commodity trading advisors. In light of these rules, the Investment Manager will not register with the CFTC as a commodity pool operator, but instead treats the Fund as an exempt commodity pool pursuant to CFTC Rule 4.13(a)(3) on the basis that futures, forwards and swaps make up a *de minimis* portion of the Fund's portfolio. Consequently, the Fund's trading of futures, forwards and swaps will be limited, and the Fund will not be required by CFTC rules to deliver to Limited Partners a disclosure document or a certified annual report complying with CFTC regulations.

**Forward Trading.** The Adviser may enter into deliverable forward contracts for the trading of certain commodity interests, such as currencies, with U.S. and foreign banks. A forward contract is a contractual obligation to buy or sell a specified quantity of a commodity at or before a specified date in the future at a specified price and, therefore, is similar to a futures contract. However, deliverable forward contracts are not traded on exchanges and, as a result, are not afforded the regulatory protections provided by such exchanges; rather, banks and dealers act as principals in such markets. As a result of Dodd-Frank, the CFTC now regulates non-deliverable forwards (including many deliverable forwards where the parties do not take delivery). Changes in the forward markets may entail increased costs and result in burdensome reporting requirements. There are no limitations on daily price moves in such forward contracts. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with unusually wide spreads between the prices at which they are prepared to buy and those at which they are

prepared to sell. With respect to foreign currency forward trading in particular, the imposition of credit controls by governmental authorities might limit such forward trading to less than that which the Adviser would otherwise recommend.

**Counterparty and Settlement Risk.** Due to the nature of some of the investments which the Adviser makes, the Adviser relies on the ability of the counterparty to a transaction to perform its obligations. In the event that any such party fails to complete its obligations for any reason, investors often suffer losses.

The Adviser will also bear the risk of settlement default by clearing houses and exchanges. The Adviser effects transactions in OTC or “interdealer” markets with financial institutions or counterparties, including banks and brokerage firms. The participants in such markets are typically not subject to the same level of credit evaluation and regulatory oversight as are members of “exchange-based” markets. This exposes the Adviser 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 investors 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 its transactions with a single or small group of counterparties. The Adviser is not restricted from dealing with any particular counterparty. The inability to make complete and “foolproof” evaluations of the financial capabilities of the counterparties and the absence of a regulated market to facilitate settlement increases the investor’s risk. Even if the Adviser does not actually lose capital on deposit with a given broker or counterparty, financial difficulties incurred by such entity could cause material losses by impeding the Adviser’s ability to execute the transactions necessary to limit losses or capitalize on market opportunities.

Any default by a counterparty or on settlement could have a material adverse effect. While central clearing of certain standardized derivatives trades has brought more stability and lower counterparty risk to derivatives markets, not all of the Adviser’s trades will be subject to a clearing requirement because the trades are grandfathered or because they are bespoke, or because they are within a class that is not currently subject to mandatory clearing.

**Custody Risk.** Institutions, such as brokerage firms, banks and broker-dealers, generally have custody of portfolio assets managed by the Adviser and often hold such assets in “street name.” The Adviser is subject to the risk that these firms and other brokers, counterparties or clearinghouses with which it deals may default on their obligations. Any default by any of such parties could result in material losses to the investor. Bankruptcy or fraud at one of these institutions could also impair the operational capabilities or the capital position of the Adviser. In addition, securities and other assets deposited with custodians or brokers may not be clearly identified as being assets of the Adviser, causing the Adviser to be exposed to a credit risk with regard to such parties. The Adviser generally will only be an unsecured creditor of its trading counterparties in the event of bankruptcy or administration of such counterparties. In some jurisdictions, the Adviser may also only be an unsecured creditor of its brokers in the event of bankruptcy or administration of such brokers. The Adviser attempts to limit its brokerage and custody transactions to well-capitalized and established banks and brokerage firms in an effort

to mitigate such risks, but the collapse in 2008 of the seemingly well-capitalized and established banks demonstrates the limits on the effectiveness of this approach in avoiding counterparty losses.

**Side Letters; Differential Access to Information; Differential Business Terms.** In the Private Fund managed by the Adviser, side letters or agreements with specific investors may be reached under which such investors may be granted preferential fee or liquidity terms or other terms of such Private Fund may be waived or modified. Additionally, terms and conditions of the Fund of One have been directly negotiated with the investor. As a result, certain investors obtain additional benefits which other investors will not receive. Except as required by applicable law, in general, notification of other investors of such arrangements is not required nor is the Private Fund required to offer such additional and/or different rights and/or terms to any or all of the other investors.

**Lack of Exclusivity.** Deer Park Road Management Company LP and its affiliated entities are exposed, to a number of actual and potential conflicts of interest. Any such conflict of interest could have a material adverse effect on the Adviser's Clients and investors therein. However, the existence of an actual or potential conflict of interest does not mean that it will be acted upon to the detriment of investors. When a conflict of interest arises, the Adviser will endeavor to ensure that the conflict is resolved fairly and in an equitable manner that is consistent with its fiduciary duties. The Adviser has in place policies and procedures that it believes are reasonably designed to identify and resolve actual and potential conflicts of interest. For purposes of this section, the "Deer Park Entities" include: (a) any other person or entity controlling, controlled by or under common control with the Adviser and (b) a director, partner, stockholder, agent, officer or employee of the Deer Park Entities.

Unless the context clearly indicates otherwise, references in this section to conflicts of interest that may apply to the Adviser should be understood to apply to the Adviser and the Deer Park Entities.

The Adviser and the Deer Park Entities are each under no obligation to devote their full time (or any material part of their time) to any single Client or Fund but are only required to devote such time and attention to the affairs as appropriate. The portfolio managers of the Adviser, who are responsible for the management of a Client's investment portfolio, provide investment advisory, management and/or financial consulting services to other clients, funds and/or other clients of the Firm. In addition, the Adviser serves in a similar capacity for several Clients, some of which have similar strategies. The compensation earned by the Adviser, its management team and its portfolio managers with respect to each of its Clients may be significantly higher or lower than that which they earn with respect to managing any other client, and such differences may (but are not required to) result from the relative performance results of an Client. The payments to be received by the Adviser from any one Client may exceed the level of compensation received by other persons in the securities industry who perform services similar to those which will be performed by the Adviser and the Deer Park Entities on behalf of its Clients. The Adviser and the Deer Park Entities and personnel will not be restricted from forming additional investment funds or vehicles, from entering into other investment advisory relationships or from engaging

in other business activities, even if such activities may be in competition with its other Clients and/or may involve substantial time and resources of the Adviser and the Deer Park Entities or personnel. These activities could be viewed as creating a conflict of interest in that the time and effort of the Adviser and the Deer Park Entities and personnel are not and will not be devoted exclusively to the business of any single Client but will be allocated between the management of all Client assets.

One or more employees of Deer Park, including a Portfolio Manager, serves on boards of directors or in other management capacities at companies (including public companies) in which the Fund invests, either directly or indirectly. Currently, Mr. Burg is on the board of directors of a portfolio company in which the Fund invests.

## 9. **Disciplinary History**

On June 4, 2019, the Investment Manager and Mr. Burg entered into an order (**the “Order”**) with the Securities and Exchange Commission (**the “SEC”**). Without admitting or denying the findings in the Order, the SEC found that from at least October 2012 through December 2015 (**the “Relevant Period”**), the Investment Manager’s policies failed to address sufficiently how to conform the firm’s valuations with Generally Accepted Accounting Principles (**“GAAP”**). Further, the SEC found the Investment Manager’s policies were not reasonably designed for its business practices, given its use of valuation models and pricing vendors, and the potential conflict of interest arising from traders’ ability to determine the fair value of a portion of the positions they manage.

Moreover, the Order states that the Investment Manger failed to implement its existing policy. In accordance with GAAP, the Investment Manager’s valuation policy included a requirement to maximize the use of relevant observable inputs. During the Relevant Period, however, the Investment Manager, at times failed to ensure that certain residential mortgage-backed securities (**“RMBS”**) were valued in accordance with GAAP. Specifically, the Investment Manager may have undervalued certain client assets by failing to maximize relevant observable inputs, such as trade prices. The SEC found that Mr. Burg was a cause of the Investment Manager’s failure to implement the valuation policy that required maximizing observable inputs. The SEC censured the Investment Manager and ordered the Investment Manager and Mr. Burg to cease and desist from committing or causing any violations of Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder. The SEC fined the Investment Manager \$5 million and Mr. Burg \$250,000.

To the best of the Adviser’s knowledge, there are no other legal or disciplinary events the Adviser believes would be material to an advisory client or prospective advisory client’s evaluation of the Adviser’s advisory business or the integrity of the Adviser’s managements. As part of the Adviser’s routine compliance training and monitoring program, all employees are asked to certify upon hire, and annually thereafter, whether they have been the subject of any disciplinary actions.

**10. Other Financial Industry Activities and Affiliations**

Deer Park Road Management Company, LP is an exempt commodity pool operator and commodities trading adviser.

Neither the Adviser, its affiliates nor any of its management personnel or employees: 1) are registered as a broker/dealer, a registered representative of a broker/dealer; or 2) have any application pending to register as a broker/dealer or a registered representative of a broker/dealer.

Employees of the Adviser may receive compensation (in the form of cash, restricted or unrestricted stock and/or stock options) from portfolio companies for their service on boards or other management capacities (any such compensation, and any break-up fees, monitoring fees, transaction fees, consulting fees, commitment fees and other similar fees, if any, paid to the Portfolio Managers for services rendered by such persons to the Fund or any company in which the Fund invests, collectively, “**Ancillary Fees**”). Ancillary Fees will be contributed to the Fund which holds securities in the subject company and will not be retained by the Portfolio Manager or employee personally. Currently Mr. Burg is on the board of directors of a portfolio company in which the Fund invests.



## 11. **Code of Ethics, Participation or Interest in Client Transaction and Personal Trading**

Deer Park has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. Deer Park holds a fiduciary duty to its clients which means it must put the interests of its Clients ahead of its own interests in all matters. It is the Policy of Deer Park that all Employees must:

- Observe high standards of commercial honor and just and equitable principles of trade in all their dealings on behalf of the Firm;
- Comport themselves in a manner consistent with the standard of conduct as set forth in this Code;
- Comply with all Federal Securities Laws and other applicable laws and regulations;
- Report all personal securities transactions and holdings to the Firm as provided below;
- Report any violations of this Code to the Chief Compliance Officer of the Firm;
- Certify to the Firm on an annual basis acknowledgement of the policies and procedures referred to in this Code and agreement to abide by these rules.

The Adviser's Code of Ethics also places restrictions on the personal trading activities of employees. The Code requires employees to register all personal trading accounts (and certain trading accounts in which the employee has a substantial interest or over which the employee has discretion) with the Firm's Compliance Department. Employees are required to report all transactions in securities and all position in securities to the Compliance Department within 10 days after becoming an employee of the Firm and thereafter at least once per calendar year. Employees are also required to report on a quarterly basis to the Compliance Department all transactions in securities within 30 days of the end of each calendar quarter. Additionally, the Code requires that all employees receive written approval from the Chief Compliance Officer prior to investing in any limited or restricted securities offerings, and/or MBS / ABS transactions.

The Adviser maintains an approved list of securities that Employees may purchase and sell for their personal accounts. Employees are prohibited from purchasing any securities (or derivatives thereof) that are not on this list with the exception of certain broad-based ETFs, managed accounts by independent third party investment advisers and other securities.

The Adviser requires that all individuals must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices. The Adviser's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. Any individual not in observance of the above may be subject to discipline.

An affiliate of the Adviser acts as General Partner to the Private Fund and the Fund of One that are managed by the Adviser. Additionally, Affiliates and employees of the Adviser have invested substantial amounts in the Private Fund and Fund of One managed by the Adviser and therefore have a financial interest in the Private Fund. Investments made by the Firm and its employees are generally made on the same terms as other investors in the Funds. However, fees, investment minimums and redemption restrictions may be waived or reduced for the Adviser and its employees. We do not believe this arrangement presents any material conflicts of interest since our interests are aligned with the interests of Client Fund investors. *Deer Park's Code of Ethics may be obtained by client or prospective clients upon request.*

## 12. **Brokerage Practices**

The Adviser has full discretionary authority to manage the investment of the Clients. Including the authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and the commissions or mark-ups and markdowns paid. The Adviser need not solicit competitive bids or offers for any particular security. Accordingly, if the Adviser determines in good faith that the price paid for a security is reasonable relative to the value of such security, it may pay a price higher than or receive a price lower than another broker or dealer may have charged.

**Best Execution**-It is the obligation of all investment advisers to obtain “Best Execution” of securities transactions for their clients. Best Execution is not defined in securities laws or regulations but is generally understood to require the adviser to obtain the most favorable total cost or proceeds in a securities transaction for its clients under the circumstances. The adviser’s duty is not necessarily to find the best price or lowest cost, but rather to achieve the best qualitative execution for the client. In doing this, the Adviser may take into consideration such factors as knowledge of the counterparty, speed of execution, confidentiality, market depth, capital commitment and recent order flow. A periodic and systematic assessment of execution services is important to the Firm meeting its Best Execution obligation.

Best Execution in fixed income markets is difficult to exactly define. Limited transparency, liquidity, size and other factors relating to the market for MBS and ABS securities make trading these instruments difficult and not subject to an exacting review of trading alternatives on either a pre-trade or post trade basis.

**Principal Trades and Cross Trades**-Section 206(3) of the Investment Advisers Act of 1940, as amended, prohibits any investment adviser from engaging in or effecting any transactions on behalf of a client while acting as either principal for its own account (“Principal Trades”) or as a broker in a trade between two separate firm Accounts (“Agency Cross Trade”) without first disclosing to the client the adviser’s role in the transaction and obtaining the client’s consent. “Acting as a broker” describes the situation where the Adviser takes compensation for effecting the transaction other than its typical advisory fee or incentive allocation.

Principal and Agency Cross Trades can benefit Accounts in a number of ways, including: 1) enabling the transfer of securities among Client accounts without having to expose the security to the market; 2) eliminating counterparty risk; and 3) providing the Firm with added flexibility when dealing with an illiquid asset. Although Principal and Agency Cross Trades can be appropriate in many circumstances, they can also create the potential for conflicts of interest for the Firm (i.e. the better price the adviser obtains for the selling client, the worse it is for the purchasing client).

In summary, the Firm adheres to these basic requirements:

- The transaction is a purchase or sale, for no consideration other than cash payments against prompt delivery of the security. Specifically, no brokerage commission, fee (except

customary transfer fee) or other remuneration is paid in connection with the transaction unless the facts and circumstances warranting the payment of such brokerage commission or fee are specifically described to the Client;

- The transaction is affected at the fair market price of the security determined in accordance with the applicable policy or as otherwise determined by the parties to the transaction;
- Written consent of the Account for any Principal or Agency Cross Trade is obtained prior to execution or settlement of the trade that clearly describes the transaction and the capacity in which the Firm is acting;
- Prior consent of the Chief Compliance Officer or designee is obtained; and
- The transaction is consistent with contractual obligations or the investment policy of each client account participating in the transaction (e.g., fund offering documents or each client's investment advisory agreement and corresponding investment guidelines).

The Firm will not affect Principal or Agency Cross Trades involving ERISA clients.

**Trade Errors-**The Firm may, on occasion, experience "Trade Errors" with respect to trades made on behalf of Clients. A Trade Error occurs when a transaction is not executed according to the Firm's intent and instructions. Trade Errors can result from a variety of situations, including, but not limited to, when the wrong security is purchased or sold, when the wrong amount is purchased or sold, when a security is purchased when it was meant to be sold or vice versa or when the same trade is executed twice. Not all errors are properly classified as Trade Errors. Certain errors in booking transactions are not considered Trade Errors, nor are mistakes in calculating NAV for a Fund. If an error is identified and corrected before any Client books or settles the position in their account or incurs a loss as a result, the error is not considered a Trade Error. If the error occurs as a result of the actions of a third party (such as a broker/dealer) that is not considered a Trade Error. Clients will be reimbursed for any material loss realized as a result of a Trade Error. Any gains will be for the benefit of the Account. The Firm may take such other action as is reasonable under the circumstances

**Soft Dollars-**In selecting any broker-dealer and in determining the reasonableness of brokerage commissions charged, the Adviser may take into account the fact that a broker-dealer has furnished or will furnish the Adviser or its affiliates, without charge, with statistical, research or other information or services which may enhance its services generally, whether or not such services, in any particular instance, are of any benefit to the Fund. Such services may take the form of research services, special execution capabilities, clearance, settlement, net price, online pricing, block trading and block positioning capabilities, economic and market information, portfolio strategy advice, industry and company comments, technical data, recommendations and general reports. Accordingly, the Fund may be deemed to be paying for research and such other services with "soft" or commission dollars. The Adviser will only enter into such "soft dollar" arrangements where it reasonably believes that they will be within the "safe harbor" of Section 28(e) of the Securities Exchange Act of 1934, as amended.

The Adviser does not currently pay, and does not anticipate the need or desire to pay, for research or other services with "soft dollar" arrangements. Nonetheless, in the future, the Adviser may choose to pay for research or other services through "soft dollar" arrangements. In such case,

even though the Adviser believes that each Fund will benefit from many of the services obtained with “soft” dollars generated by Fund trades, each Fund will likely pay higher transaction costs than it would in the absence of such arrangements and may not benefit from all of these “soft” dollar services or one Fund may benefit disproportionately to other Funds. Furthermore, the Adviser and its affiliates and other funds or accounts which they may manage may also derive substantial direct or indirect benefits from these services, particularly to the extent that any of them uses “soft” or commission dollars to pay for expenses that it would otherwise be required to pay itself.

In the event that the Adviser does choose to pay for research or other services through “soft dollar” arrangements, broker-dealers may provide research and brokerage services directly or by paying service providers engaged by the Adviser. In connection with any receipt of products or services under soft dollar arrangements, the Adviser will determine in good faith that the amount of commissions charged is reasonable in relation to the value of the products or services provided by the broker-dealer. Where a product or service provided has both “eligible” uses under Section 28(e), *i.e.*, uses related to the Adviser’s investment decision-making process, but also has other uses, the Adviser will make a reasonable allocation between the eligible and non-eligible uses and use soft dollars only for the eligible portion.

It should be noted that the investment information received from broker-dealers, irrespective of whether such investment information was received complimentary or through “soft dollar” arrangements, may be used by the Adviser or its affiliates in servicing various Funds of the Adviser regardless of the amount of soft dollar commissions contributed by that Fund. The Adviser believes that such an allocation of brokerage business will help each Fund to obtain research and execution capabilities and will provide other benefits to the Funds.

The Adviser may, but is not obligated to, enter into arrangements under which certain direct expenses of the Fund are paid with soft dollars. The Adviser will enter into such arrangements where it believes that it is administratively or operationally expedient to do so or where the Adviser believes it is more favorable to than an arrangement under which the Funds pay for the products or services in question with cash. However, such arrangements make it more difficult for investors to evaluate the cost structure of a Fund because the costs of such products or services are not broken out separately.

In addition to any soft dollar arrangements that the Adviser enters into with broker-dealers, broker-dealers may provide certain research or other products or services to all of their customers, including the Adviser, without being requested to do so. Similarly, broker-dealers may refer investors to the Adviser. The Adviser may take advantage of the products or services provided rather than producing or paying for them from another provider. Similarly, the Adviser may accept investor referrals from broker-dealers in appropriate circumstances. In these situations the Adviser receives a benefit because it does not have to pay for the products or services, such as research, or because it will receive additional compensation if a Fund accepts new investments. The Adviser has an incentive to recommend broker-dealers based on benefits that it receives from broker-dealers, whether or not pursuant to soft dollar arrangements, rather than the interests of a Fund in receiving the most favorable execution. Any products or services that the Adviser receives from broker-dealers may be used in connection with its management of all Client accounts, not just selected accounts.

The Adviser assumes no responsibility for the actions or omissions of any broker-dealer or dealer selected by the Adviser in good faith.

**Aggregation of Trade Orders**-Please see item 6 for a discussion of Adviser's practice concerning aggregation of Client transactions.

### **13. Review of Accounts**

Client accounts are reviewed on an as-needed basis, but no less frequently than monthly. Reviews are undertaken by Michael Craig-Scheckman and/or Scott Burg. All investors in the Private Fund receives monthly performance updates from the Administrator and commentary from the Adviser. The monthly updates consist of statistical information and a market specific narrative.

Information on the Private Fund is also made available to investors through the Firm's password protected website. In addition, tax reports and annual audited financial statements are issued relating to the relevant Private Fund within 120 days of the end such Private Fund's fiscal year.

**14. Client Referrals and Other Compensation**

Deer Park does not receive any economic benefit from anyone other than its Clients for providing investment advice or advisory services to its Clients.

The Adviser and its affiliates have entered into agreements with placement agents with respect to investors introduced to the Private Fund managed by the Adviser providing for the placement agent to receive a portion of the Adviser's fee with respect to investors introduced. Any amounts paid to a placement agent will reduce the amount of fees paid to the Adviser from the Private Fund; the fees paid to placement agents will not increase fees paid by any Private Fund investor or the investor in the Fund of One.

## **15. Custody**

The Adviser is deemed to have custody over the funds and securities of the Private Fund. The Adviser is subject to SEC rule 206(4)-2 under the Investment Advisers Act of 1940, as amended. However it is not required to comply, or is deemed to have complied, with certain requirements of the rule because it complies with the so-called “Pooled Vehicle Audit Exception”. This exception requires the that each Private Fund be subject to audit at least annually by an independent public accountant that is registered and subject to regular inspection, by the Public Company Accounting Oversight Board, and requires that each Private Fund distributes its audited financial statements to all investors within 120 days of the end of the Private Fund’s fiscal year.



**16. Investment Discretion**

As noted in Item 4, the Adviser has been appointed the investment manager, investment adviser, the sub-adviser or the General Partner with full discretion with respect to investment decisions on behalf of and trading in the Clients Accounts, or sub-accounts.

Investment guidelines and restrictions are set forth in respective Investment Management Agreements and/or offering documents for the respective Fund or Client. When selecting securities or determining amounts, the Adviser observes the investment policies, limitations and restrictions imposed by the Client.

## **17. Voting Client Securities**

The Investment Advisers Act of 1940, as amended, requires investment advisers that have proxy voting authority to: (i) adopt policies and procedures for voting proxies in the best interest of the client; (ii) describe the procedures to clients; and (iii) inform clients how they may obtain information about how the adviser has actually voted their proxies.

Since we invest almost exclusively in fixed income securities (as opposed to equities) we rarely receive proxies to vote.

The general policy is to vote proxy proposals, amendments, consents or resolutions relating to securities, including interests in pooled investment vehicles, if any (collectively, “proxies”), in a manner that serves the best interests of the Clients, as determined by the Adviser in its discretion, taking into account the following factors: (i) the views of management; (ii) the impact on the value of the investments; (iii) the continued or increased availability of portfolio information; and (iv) industry and business practices. In addition, the Adviser may not vote proxies in certain situations where the associated costs outweigh the anticipated benefits to Clients.

If a material conflict of interest exists between the interests of the Adviser and those of the relevant Client with respect to any issue to be voted on, the Adviser will base its voting decision exclusively on the Adviser’s judgment of what will best serve the financial interests of the Client that beneficially owns the securities that are the subject of the vote.

Investors in a Private Fund may request a copy of the Policies and the proxy voting record relating to the relevant Private Fund by contacting the Adviser.

**18. Financial Information**

Deer Park is not required to attach a balance sheet to this brochure because it does not require the prepayment of more than \$1200 in fees per client, six month or more in advance.

Deer Park has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.