

**ITEM 1  
COVER PAGE**

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**PART 2A OF FORM ADV: FIRM BROCHURE**

**CERBERUS CAPITAL MANAGEMENT, L.P.**

March 31, 2021

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## **ITEM 2**

### **MATERIAL CHANGES**

Since Cerberus Capital Management, L.P. (the “Adviser”) filed its most recent Part 2A of Form ADV: Firm Brochure on March 25, 2020 (the “Adviser’s Brochure”), there have been no material changes to the Adviser’s Brochure. Items 4, 5, 8, 10 and 11 have been updated to reflect more detailed disclosure with respect to the information set forth in each such Item. The Advisers (as defined in Item 4) continued to provide investment management and administrative services to new Clients (as defined in Item 4) during calendar year 2020 and into calendar year 2021 and expect to continue to do so for the remainder of calendar year 2021.

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## **ITEM 4**

### **ADVISORY BUSINESS**

#### **A. General Description of Advisory Firm.**

The Adviser is a Delaware limited partnership founded in 1992. The Adviser is headquartered in New York City and has twenty-four affiliated advisory offices located in the United States (“U.S.”), Europe, Asia, Africa, South America and Australia. The principal owner is Stephen A. Feinberg, who owns his interests in the Adviser indirectly through one or more intermediate entities.

The Adviser and its affiliates (the “Affiliates”) (the Adviser and the Affiliates are sometimes collectively referred to as the “Advisers”) provide investment management and administrative services to privately placed pooled investment vehicles (collectively, the “Private Funds”), single investment special purpose investment vehicles and managed accounts (collectively, with the Private Funds, the “Clients”) based on their respective investment objectives.

An Affiliate of the Adviser, Cerberus Sub-Advisory I, LLC, became a U.S. Securities and Exchange Commission (the “SEC”) registered investment adviser on June 19, 2013. Cerberus Sub-Advisory I, LLC serves as an inactive sub-adviser to one fund registered as an investment company with the SEC under the Investment Company Act of 1940, as amended (the “1940 Act”). Although separately registered as an investment adviser with the SEC, Cerberus Sub-Advisory I, LLC is effectively part of the single advisory business of the Advisers.

The Advisers tailor their advisory services as described in the investment program of the relevant Client’s private placement memorandum or as set forth in such Client’s organizational documents, the subscription documents related to an investment in such Client and/or the investment management agreement with such Client. Please refer to Item 8 for a more detailed description of Advisers’ investment strategies as well as the securities and other instruments purchased by Clients under the management of the Advisers.

Four affiliates of the Adviser, Partridge Hill Overseas Management, LLC (“Partridge Hill”), Cerberus Capital Management II, L.P. (“CCM II”), Cerberus Institutional Management II, LLC (“CIM II”) and Cerberus Real Estate Capital Management, LLC (“CRECM” and, collectively with Partridge Hill, CCM II and CIM II, the “CPO Managers”), have registered as Commodity Pool Operators (“CPOs”) with the Commodity Futures Trading Commission (“CFTC”) and have become members of the National Futures Association (“NFA”). Certain management persons of the Adviser are registered as principals and/or associated persons of such entities.

Since the filing of the Adviser’s last Brochure through March 31, 2021, several new Clients have been launched. For a complete list of all Clients that the Advisers provide administrative and/or investment management services, see Section 7.B. of Schedule D to the Advisers’ Form ADV Part 1.

The Advisers provide investment management services to the Clients on a discretionary basis. With respect to one Private Fund, an Affiliate serves as co-manager to such Private Fund with a third party as set forth and described in the organizational and offering documents of such Private Fund.

**B. Description of Advisory Services.**

*Advisory Services*

The Adviser is a global alternative investment firm founded in 1992. Headquartered in New York City with affiliated advisory offices located in the U.S., Europe, Africa, South America, Asia and Australia, the Advisers generally have a long-term investment horizon and focus on value creation globally in private equity, real estate and global credit strategies as outlined below. The Advisers' investment and operations professionals are integrated across all three of the Advisers' primary investment strategies, bringing considerable expertise in assessing and managing all of the Advisers' investments.

- Private Equity, including acquisitions of companies with operational problems or significant cost reduction opportunities, subsidiaries of companies where the business is viewed as non-core and/or under-performing divisions and companies undergoing reorganization under U.S. bankruptcy law or similar laws;
- Real Estate, including investments in distressed debt securities and assets, special situations, direct equity, mortgage loans and bridge financings, mezzanine debt and preferred equity and non-performing loans ("NPLs") secured by real estate; and
- Global Credit, including corporate credit and distressed debt, corporate middle-market direct lending and residential and commercial mortgage securities and assets.

*Philosophy*

The Advisers' investment philosophy is centered on integrity, patience and a unique business model that applies significant financial and operational resources across the Advisers' investment strategies. The Advisers focus on opportunities that offer the potential for superior risk-adjusted returns. The Advisers also focus on growing business, recruiting and retaining top executives, proactively managing risks and ensuring the highest standards of corporate governance. The Advisers require disciplined due diligence, strict compliance, a team approach between investment and operations professionals and the use of efficient, creative and customized solutions.

Please see Item 8 for additional information related to methods of analysis, investment strategies and risk of loss.

**C. Availability of Customized Services for Individual Clients.**

The Advisers tailor their advisory services as described in the investment program of the relevant Client's private placement memorandum or as set forth in such Client's

organizational documents, the subscription documents related to an investment in such Client and/or the investment management agreement with such Client.

In addition, the Advisers have the right to enter and have entered into agreements, such as side letters, with certain investors in the Private Funds that may in each case provide for terms of investment that are more favorable than the terms provided to other investors in the Private Funds. Such terms typically include, among other things, the waiver or reduction of management and/or incentive fees/allocations, the provision of additional information or reports, rights related to specific regulatory requests or requirements of certain clients, more favorable transfer rights, and more favorable liquidity rights. Certain Clients (and/or underlying investors) also negotiate for investment exposure (or investment limitations) with respect to specific industries, sectors, geographic regions or investments.

Persons reviewing this Form ADV Part 2A should not construe this as an offering of any of the Private Funds described herein, which will only be made pursuant to the delivery of a private placement memorandum, subscription agreement and/or similar documentation to prospective investors.

**D. Wrap Fee Programs.**

The Adviser does not participate in wrap fee programs.

**E. Assets Under Management.**

As of January 1, 2021, the Adviser had approximately \$70.5 billion of regulatory assets under management, all of which was managed on a discretionary basis. Cerberus Sub-Advisory I, LLC, is an inactive sub-adviser to one fund registered as an investment company with the SEC under the 1940 Act, and is not currently managing any assets of the fund but allocations may change at any time without notice.

## **ITEM 5**

### **FEES AND COMPENSATION**

#### **A. Advisory Fees.**

##### *Management Fees*

With respect to Clients that are structured as hedge or liquid funds, the Adviser or one of its Affiliates is generally paid a quarterly management fee of 1% to 2% per annum of the aggregate net asset value of each investor's capital account or series of shares, as applicable. With respect to Clients that are structured as private equity or commitment funds, the Adviser or one of its Affiliates is generally paid a quarterly management fee of 1% to 2% per annum of total committed capital, called capital invested (at cost), total assets under management or net asset value. Management fees are generally paid quarterly in advance, but may be paid quarterly in arrears.

##### *Performance-Based Allocations or Fees*

With respect to Clients that are structured as hedge or liquid funds, an Affiliate of the Adviser is generally allocated or paid an annual performance-based allocation or fee of 15% to 20% of the net gain earned by each investor subject to a high water mark and, in certain cases, a hurdle rate of 6% to 8%. Certain Clients structured as hedge or liquid funds subject this performance-based allocation or fee to a preferred return to investors and a catch up allocation to the Affiliate. With respect to Clients that are structured as private equity or commitment funds, an Affiliate of the Adviser is generally allocated or paid a performance-based allocation or fee of 15% to 20% of the proceeds realized upon the disposition of the assets of such Client; subject to the return of capital contributions to investors and, often, subject to a preferred return to investors (often 6% to 8%), catch-up distributions to the Affiliate and/or other performance hurdles. In certain cases, a Client structured as a private equity or commitment fund pays an Affiliate a portion of its performance-based allocation or fee prior to the disposition of the assets of such Client.

##### *Collateralized Loan Obligations*

With respect to Clients structured as collateralized loan obligations ("CLOs"), an Affiliate of the Adviser is generally paid a quarterly management fee of 1% per annum. For any Private Fund investing directly or indirectly in one or more Clients structured as CLOs, each such Private Fund's total management fees payable do not exceed the management fee set forth in such Private Fund's offering documents, organizational documents and/or investment management agreement.

##### *Compensation Waivers or Reductions*

Compensation to the Advisers is negotiable, and is set forth and described in each Client's offering documents, organizational documents and/or investment management agreement. Certain investors in the Private Funds have negotiated for and pay reduced performance-based allocations or fees and/or reduced management fees. In addition, certain investors in certain co-investments, as described herein, pay no fees.

Certain Clients in liquidation may pay either (i) no fees or compensation or (ii) pay, in advance, a quarterly management fee at a reduced rate.

**B. Payment of Fees.**

Management fees, incentive allocations, incentive fees and carried interests are generally deducted directly from Client accounts. If an advisory contract is terminated before the end of a billing period, unearned, pre-paid fees (prorated for the remaining portion of the billing period) will be refunded directly to a Client or underlying investor in accordance with the terms of the Client's offering documents, organizational documents and/or investment management agreement.

**C. Additional Expenses and Fees.**

As more particularly set forth or described in the offering documents, organizational documents, investment management agreement of a particular Client and/or the Advisers' expense-related policies and procedures, a Client may bear some or all of the following costs and expenses:

- (i) operating and administrative costs and expenses of the Clients;
- (ii) organizational and offering costs and expenses of the Clients (including, without limitation, all, or a portion, of the costs and expenses incurred in connection with a Client's formation and qualification and the offering and sale of interests in a Client, including, without limitation, legal and accounting fees and expenses, registration and qualification fees and expenses, fees and expenses of distribution, filing fees, printing costs and all costs and expenses incurred in connection with the preparation of offering documents, marketing materials, organizational documents, operating documents and similar materials and the costs of qualifying, reproducing, amending, supplementing, mailing and distributing offering materials, including telephone and other communications and transmittal costs);
- (iii) expenses associated with all investments and transactions considered, evaluated and/or consummated by the Clients, including, without limitation, expenses associated with sourcing, negotiating, investigating, researching, financing, structuring, acquisition and due diligence of investments and potential investments, whether or not consummated (including third-party research, data, analytics, modeling, structuring, pricing, execution and other third-party information systems, software and service fees (including data feeds, subscriptions, reports and similar items));
- (iv) expenses associated with the holding, financing, construction, leasing, monitoring, hedging, maintaining and disposing of all investments of the Clients (including, to the extent a Client owns any real estate, asset and property management expenses of third parties, local operators and certain Affiliates as described herein) and all transaction and other costs associated therewith;

- (v) travel and related expenses associated with investments and potential investments;
- (vi) professional fees associated with investments and potential investments, including, without limitation, accounting, consulting, investment banking, legal and other advisory fees and expenses (including, for the avoidance of any doubt, any third-party consultants engaged through Cerberus Global Investment Advisors, LLC and Cerberus Operations (as defined in Item 10), and any other Advisers, whether now existing or hereafter created, in respect of the Clients and/or their portfolio investments);
- (vii) transaction fees, brokerage commissions, clearing and settlement charges and similar fees and expenses associated with the acquisition, disposition and settling of investments and potential investments;
- (viii) administrative, custodial, appraisal, valuation, legal, consulting, advisory and similar fees and expenses associated with the Clients' operations, investments and transactions, including fees and expenses of any administrator;
- (ix) management fees;
- (x) costs, fees and expenses of any Affiliates engaged to provide services by or on behalf of the Clients as described in Item 10, "Material Relationships or Arrangements with Industry Participants and Affiliated Advisers – Affiliated Service Providers", including, without limitation, the fees and expenses of each of (a) Cerberus Operations (including COAC Expenses as defined in Item 10), (b) the Portfolio Company Servicers (as defined in Item 10), (c) FirstKey Homes (as defined in Item 10), (d) FirstKey Mortgage (as defined in Item 10), (e) Cerberus Servicing (as defined in Item 10), (f) Cerberus Technology Solutions (as defined in Item 10), and (g) certain other Affiliates;
- (xi) the Dutch and Other Expenses (as defined in Item 10);
- (xii) broken-deal, failed transaction, break-up and similar fees, costs and expenses (including any portion thereof attributable to actual or potential Co-Investors (as defined herein) and to the extent not paid by the sponsor of a potential borrower and/or from the borrower itself, whether through good faith deposits or otherwise);
- (xiii) costs and expenses of leverage and/or financing of the Clients utilized or proposed to be utilized by the Clients (including, without limitation, any subscription facilities) including interest charges and fees;
- (xiv) auditing and accounting expenses of the Clients, including expenses associated with the preparation of the Clients' financial statements, tax returns and Schedules K-1;

- (xv) costs and expenses associated with investor communications and reports and the delivery thereof to investors, including, without limitation, any costs and expenses related to disclosure of any other agreements by investors or any election by investors of any relevant terms and any reporting pursuant to any other agreements;
- (xvi) costs and expenses associated with any special investor meetings and all meetings of the Clients' advisory boards and the meetings of any other committees of the Clients, including any committees formed for the purpose of approving principal transactions as described in Item 11, "Securities That the Adviser or a Related Person Has a Material Financial Interest";
- (xvii) reasonable costs and expenses related to the Clients' boards of directors and their meetings and certain Clients' investment committee members and/or conflicts committee and/or their meetings;
- (xviii) insurance expenses, including, without limitation, those relating to property, title, directors' and officers' liability, errors and omissions and other insurance policies;
- (xix) expenses incurred in the collection of monies owed to the Clients;
- (xx) costs and expenses (including taxes, fees or other governmental charges) associated with the formation, organization and operation of any subsidiary, special purpose vehicle ("SPV"), alternative investment vehicle, holding company or similar entity formed with respect to investments, credit facilities or arrangements (including, without limitation, any subscription facilities or CLO issuances or term debt securitizations) or other transactions entered into for the benefit of the Clients;
- (xxi) wind-up, liquidation, termination and dissolution expenses;
- (xxii) costs, fees and expenses related to registration, qualification and/or exemption under any applicable U.S. federal, state, local or non-U.S. laws, rules or regulations, including blue sky fees and other securities and/or investment-related filing expenses;
- (xxiii) costs related to any transfers of interests in the Private Funds, unless otherwise charged to or borne by the applicable transferor and/or transferee;
- (xxiv) any extraordinary expenses (including all litigation-related, indemnification and contribution expenses, including the amount of any judgment or settlement paid in connection therewith);
- (xxv) any investment and transaction expenses of the Clients or any other affiliated investment originator attributable, as determined by the Adviser of such Clients, to securities or other assets considered for investment by such Clients, including, to the extent not paid by the sponsor of a potential borrower and/or

from the borrower itself (whether through good faith deposits or otherwise), the costs and expenses of any securities or other assets (or interests therein) purchased by or transferred to the Clients and any “broken-deal” or failed transaction expenses (including in certain cases, the share of such expenses attributable to a prospective Co-Investor (as defined herein)) incurred by the Clients or any other affiliated investment originator in respect of contemplated securities or other assets that would have been originated or invested in by such Clients, and these expenses generally will not be borne or shared by potential syndicate partners, transferees or offerees;

- (xxvi) expenses incurred in connection with the performance of loan origination, servicing, management and due diligence services for the Clients, including without limitation, any investment and transaction expenses of any affiliated loan originator or service provider attributable, as determined by the Advisers of such Clients, to loans or other assets considered for investment by the Clients, including, to the extent not paid by the sponsor of a potential borrower and/or from the borrower itself (whether through good faith deposits or otherwise), the costs and expenses of any loans or other assets (or interests therein) purchased by or transferred to the Clients and any broken-deal or failed transaction expenses incurred by any affiliated loan originator or service provider in respect of contemplated loan or other assets that would have been originated or invested in by the investors;
- (xxvii) expenses incurred in connection with the performance of loan and asset servicing and settlement activities, collateral management, loan administration, due diligence and property management services for the Clients; and
- (xxviii) all other fees, costs, charges and expenses associated with the business, affairs and/or operations of the Clients and the sourcing, acquisition, management and exit of properties owned by the Clients.

The Advisers of certain Clients may from time to time also receive good faith deposits from the sponsors of potential borrowers or from borrowers themselves, which will be used to pay investment due diligence expenses (including broken-deal or failed transaction expenses) and will offset expenses that would otherwise be expenses of such Clients in respect of such investment.

Whenever the Advisers or their affiliates have incurred any costs, fees and/or expenses that upon the determination of the Advisers are costs, fees or expenses that should be allocated to or among one or more of the Clients, the Advisers shall be entitled to prompt reimbursement for such costs, fees and expenses from such Clients. Whenever one or more of the Clients has incurred any costs, fees or expenses that upon the determination of the Advisers are costs, fees or expenses that should be allocated differently pursuant to the Expense Allocation Policy, as defined and discussed herein, such costs, fees and expenses shall be reallocated in accordance with the term and provisions of the Expense Allocation Policy.

The Advisers will provide office space for themselves and on behalf of the Clients, and will pay for all rent, utilities, HVAC, water, cleaning, office furniture, fixtures and equipment, computer equipment (excluding any third-party data, analytics or other information systems as described above, which are expenses of the Clients), office supplies and all other reasonable and customary occupancy costs, as well as reception, secretarial, clerical and other administrative personnel and the salaries, bonuses and benefits paid to investment professionals and support personnel of the Advisers (excluding the COAC Expenses (as defined in Item 10), the Dutch and Other Expenses, and the costs, fees and expenses of Cerberus Servicing, Cerberus Technology Solutions, the Portfolio Company Servicers, FirstKey Homes, FirstKey Mortgage and other Affiliates engaged to provide services as described in such Client's offering documents, organizational documents and/or investment management agreement, in each case, which are expenses of the Clients).

Due to the fact that the Advisers manage investments on behalf of a number of Clients, certain expenses may be shared by more than one Client. The Adviser has adopted policies and procedures for the allocation of such fees and expenses among the Clients, although the policies and procedures may change from time to time and may differ materially from those described below. Subject to the policies and procedures described below with respect to co-investment opportunities, any investment-related or strategy-related expenses shared by more than one Client will generally be allocated *pro rata* based on each such Client's participation or anticipated participation in such investment or strategy. Participation is typically determined by reference to actual or anticipated allocations of investments, by reference to the Client's investments in the applicable strategy or another methodology determined to be fair and equitable by the Adviser, in its sole discretion. The Adviser will seek to allocate non-investment-related expenses shared by more than one Client to such Clients in a manner that is fair and equitable, taking into consideration all relevant factors, including, without limitation, the relevant benefit to each such Client derived from such expenses.

With respect to expenses attributable to one or more of the Clients and one or more of the Advisers (or the Private Feinberg Entities (as defined and described herein)), the Adviser seeks to allocate such expenses fairly, taking into consideration (i) the extent of the utilization of the services associated with the expense, (ii) the relative benefit that is derived from the expense and (iii) the association of the expense with a legal, contractual or other obligation.

The Adviser has established an Expense Allocation Policy and Procedures (the "Expense Allocation Policy") that, among other things, may allow persons and/or entities that invest (or propose to invest) in the same investment (or proposed investment) as the Clients, whether directly or indirectly through one or more persons and/or entities (including but not limited to SPVs controlled by the Advisers or one or more other persons and/or entities) (collectively, "Co-Investors") that are not Clients to participate in particular investments alongside one or more Clients from time to time. Where Co-Investors have been permitted to participate in consummated or potential investments, the costs, fees and expenses of such consummated or potential investments shall, whenever practicable, be allocated to such Co-Investors and among the Clients in accordance with such factors set forth in the Expense Allocation Policy from time to time. The amount of such costs, fees and expenses allocated to the Clients with respect to such investments (or proposed investments) shall be further

allocated among the Clients as described in the Expense Allocation Policy. However, it is not always possible or reasonable to allocate expenses to a Co-Investor due to the circumstances surrounding the applicable co-investment and the financial and other terms (including the timing of the investment) governing the relationship of the Co-Investor to the Clients with respect to the investment, and, as a result, there are occasions where Co-Investors do not bear a proportionate share of such expenses. For example, in certain circumstances, a Co-Investor may have limitations on the amount of expenses that may be borne by such Co-Investor in respect of an applicable co-investment, or may in certain circumstances negotiate the terms regarding expense allocations, if any, as a condition to its co-investment. In addition, where a co-investment was contemplated but ultimately not consummated, including with respect to proposed transactions that are not consummated by the Clients, the proposed or potential Co-Investor generally does not share in the expenses borne by the Clients with respect to such potential co-investment or proposed transaction opportunity (including, without limitation, broken-deal expenses, failed transaction expenses, and break-up and/or other similar costs, fees and expenses of unconsummated transactions).

Expenses generally cannot be, and therefore are not, allocated to, charged to or paid by third party investors, including but not limited to shareholders and other holders of equity interests, in portfolio companies and other corporations, companies, partnerships and/or others businesses that are (i) not controlled by the Advisers but in which the Clients have investments (including but not limited to public corporations and private companies in which the Clients have investments) or (ii) controlled by the Advisers but which have third party investors other than the Clients. In these circumstances, the applicable expenses generally will be allocated to, charged to and paid by the respective Clients, and not the respective portfolio company or other entity, unless a separate agreement has been entered into between the Advisers and such portfolio company or other entity.

Further, new Clients may be required to bear broken-deal expenses related to potential investments that are not consummated to the extent that (i) such potential investments become broken deals during the 45 day period prior to the initial closing of such Client and (ii) such Clients would have been allocated a portion of such investments, even if such expenses were borne by other Clients prior to the time such Clients were formed and/or had their initial closing. Accordingly, new Clients may bear some of such broken deal expenses.

With respect to certain Lending Funds (as defined in Item 11), operating expenses of such Clients will include any investment and transaction expenses of CBF (as defined in Item 10) attributable, as determined by the Advisers of such Clients, to loans or other assets considered for investment by a Client, including, to the extent not paid by the sponsor of a potential borrower and/or from the borrower itself (whether through good faith deposits or otherwise), the costs and expenses of any loans or other assets (or interests therein) purchased by or transferred to a Client and any “broken-deal” or failed transaction expenses incurred by CBF in respect of contemplated loans or other assets that would have been originated by or invested in by a Client, and these expenses generally will be borne or shared by Clients if not borne by borrower or covered by good faith deposit.

**D. Prepayment of Fees.**

Please see responses to Item 5A. above.

**E. Additional Compensation and Conflicts of Interest.**

Neither the Advisers nor any of their supervised persons accept compensation for the sale of securities or other investment products.

**ITEM 6**  
**PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Affiliates receive performance-based compensation in the form of an incentive allocation, an incentive fee and/or performance distributions with respect to most Clients. Certain Clients that are in liquidation and/or are not making new investments (other than follow-on investments) are either charged no compensation or only a management fee (as described in Item 5).

Many of the Clients have investment programs that are similar to or overlap with each other, and may, therefore, participate with each other in investments. In the allocation of investment opportunities, performance-based fee/allocation arrangements could create an incentive to favor Clients that have greater performance fee/allocation arrangements over other Clients that have lesser or no performance fee/allocation arrangements. Investment decisions and allocations are made in accordance with the Advisers' Investment Allocation Policy and Procedures ("Investment Allocation Policy"), as such Investment Allocation Policy is in effect at the time of such decision or allocation. The Investment Allocation Policy is designed to ensure that all Clients are treated fairly and equitably to prevent this form of potential conflict from influencing the allocation of investment opportunities among them.

## **ITEM 7**

### **TYPES OF CLIENTS**

The Advisers provide investment management services and advice to the Clients (including CLOs), single investment SPVs and managed accounts and certain Co-Investors. Underlying investors in Clients include high net-worth individuals, financial institutions, corporations, sovereign wealth funds, endowment funds, charitable organizations, public and private pension funds and other investment funds. Generally, each underlying investor in a Client must be an “accredited investor” as defined under Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended (the “Securities Act”), and a “qualified purchaser” as defined in the 1940 Act. Certain employees of the Adviser who qualify as “knowledgeable employees” under Rule 3c-5 of the 1940 Act may be permitted to invest directly or indirectly in the Private Funds. With respect to one Private Fund, each underlying investor in such Private Fund must also be a “qualified institutional buyer” as defined in Rule 144A under the Securities Act, as set forth and described in the organizational and offering documents of such Private Fund. The offering documents of each Client may set minimum amounts for investment by prospective investors in such Clients. These minimum amounts may be waived by the Adviser or an Affiliate. One Affiliate, Cerberus Sub-Advisory I, LLC, serves as an inactive sub-adviser to one fund registered as an investment company with the SEC under the 1940 Act.

## ITEM 8

### METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

#### Methods of Analysis and Investment Strategies.

Set forth below are summaries of the different asset categories and strategies primarily employed by the Advisers. Each Client's investment portfolio may participate in one or more of such asset categories and strategies as described in such Client's offering documents, organizational documents, subscription documents related to an investment in such Client and/or investment management agreement. Clients' investment portfolios may differ based on whether they concentrate their investments in a single one of the strategies, all of the strategies or less than all of the strategies. Clients' investment portfolios may also differ based on geographical focus, liquidity needs and other considerations. The Adviser generally pursues, or has pursued, on behalf of its Clients, investments in the following three categories: (i) Private Equity, including acquisitions of companies with operational problems or significant cost reduction opportunities, subsidiaries of companies where the business is viewed as non-core and/or under-performing divisions and companies undergoing reorganization under U.S. bankruptcy law or similar laws; (ii) Real Estate, including investments in distressed debt securities and assets, special situations, direct equity, mortgage loans and bridge financings, mezzanine debt and preferred equity and NPLs secured by real estate; and (iii) Global Credit, including corporate credit and distressed debt, corporate middle-market direct lending and residential and commercial mortgage securities and assets. Investments within these categories may involve any part of the capital structure of an issuer. Investments may be passive or active (including control) investments in a wide range of industries and countries.

At present, no new investments, other than follow-on investments, are being made by certain Clients as the Advisers liquidate the existing investment portfolio of each of these Clients.

**Private Equity.** The Advisers will generally target private equity investments where they can implement an operational approach to private equity by driving portfolio investment value through operational and strategic change. Pursuant to this strategy, the Advisers seek to make control equity investments, minority equity investments, structured equity and structured debt investments, asset purchases and platform investments across a broad array of industries where the Advisers believe there is an opportunity to create value through purchase price, organizational and infrastructure improvement, efficiency and productivity gains and platform creation or asset repositioning. The Advisers will make investments where they have identified opportunities or dynamics which enable them to drive near-term value or that they believe are not appreciated by the market, augmented by opportunities for longer-term strategic growth and value creation.

This approach manifests itself in a variety of overlapping ways; however, investments typically derive value through four core value-creation areas: (i) value-oriented and complex acquisitions; (ii) organizational and infrastructure development; (iii) efficiency and productivity initiatives; and (iv) platform creation opportunities.

**Real Estate.** The Advisers invest opportunistically in a wide range of investments, primarily falling into five main categories: (i) real estate credit, including debt instruments, NPLs, performing and re-performing loans (“RPL”) (as well as the underlying collateral for such loans) and mortgage backed-securities (“MBS”); (ii) direct equity, including controlling equity interests in direct property investments, joint ventures, corporate real estate holdings, private equity and select development opportunities; (iii) special situations, including public or private real estate investment trusts (“REITs”), secondary limited partnership interests, real estate operating companies constrained by management inefficiencies or lack of liquidity, other operating companies with material real estate or real estate-related investments as well as various other customized structured transactions; (iv) mortgage loans and bridge financings; and (v) mezzanine debt and preferred equity. It is anticipated that a portion of the investments may be in the form of debt or preferred equity that will be relatively senior in the capital structure and often secured.

**Global Credit.** The Advisers focus on four principal complementary investment strategies: (i) corporate credit and distressed debt, (ii) corporate middle-market direct lending, (iii) residential and commercial mortgage securities and assets and (iv) NPLs.

The Advisers, on behalf of certain Clients, invest in NPLs, pools of NPLs and the underlying collateral for such loans. In connection with the NPL investment strategy, the Advisers may also invest in other assets, including, without limitation, performing loans, structured products, real estate owned (“REO”) and other real estate-related assets, and other assets purchased from financial institutions and distressed sellers (including those looking to de-lever their balance sheets or divest of non-core assets). The NPL investment strategy may also involve investments in the public or private debt and equity of operating companies (*e.g.*, loan servicers that specialize in the management, collection and recovery of distressed assets, operating partners, banks, or asset management companies) that the Advisers believe would be beneficial and/or accretive to the NPL investment program, including if such investments may produce additional deal flow, servicing alternatives and/or other market expertise in respect of investments that certain Clients may make (*e.g.*, data on borrowers and geographic trends). Advisers may also invest in banks and other financial institutions and operating companies that have loan books, including, without limitation, in an effort to acquire the underlying assets owned by such company or for other reasons related to the investment strategy. The loans targeted will have varying terms with respect to collateral, relative seniority or subordination, purchase price, convertibility, interest requirements and maturity. Such loans may consist of a large and diverse spectrum of loans, including small to-medium enterprise and other corporate loans, real estate secured loans (including residential, commercial and multi-family loans), loans secured by assets other than real estate (*e.g.*, ships), unsecured loans and consumer loans.

In addition, the Advisers make investments on behalf of Clients in debt of underlying issuers that are, or face the prospect of becoming, financially distressed, are or may become subject to a reorganization or insolvency proceeding, such as, but not limited to, a bankruptcy proceeding, or are or may become engaged in other extraordinary transactions, such as debt restructuring, reorganization and liquidation outside of bankruptcy. Corporate credit investment opportunities are expected to focus primarily on stressed and distressed market opportunities in senior secured bonds and loans in the high-yield bond and leveraged loan

markets but may also include a variety of other debt instruments with varying terms with respect to collateral, relative seniority or subordination, purchase price, convertibility, interest rate and maturity (*e.g.*, bonds, debentures and notes, trust certificates and commercial paper and trade claims). Debt investments may be coupled with equity investments or “kickers” and the Advisers may also invest in public and/or privately traded stand-alone equity and equity-related securities of stressed or distressed companies, including preferred stock, convertible preferred stock, common stock and warrants. The Advisers may also invest in debt that they believe is undervalued because of operational inefficiencies or market dislocations, even when the market generally does not view such debt, or its issuer, as distressed.

Furthermore, the Advisers make investments on behalf of Clients in debt and equity securities of MBS (including, without limitation, MBS backed by prime, Alt-A, Alt-B, subprime mortgages and commercial mortgages), asset-backed securities (“ABS”), collateralized debt obligations (“CDOs”), CLOs, synthetic indices, mortgage servicing rights (“MSRs”) and other forms of asset-backed securities and other pools of distressed assets.

In addition, in connection with the residential strategy, the Advisers may purchase U.S. and non-U.S. performing loans, RPLs and NPLs and pools of performing loans, RPLs and NPLs that are consistent with the Advisers’ investment programs. Such loans may include, without limitation, loans secured by residential and commercial properties (which include, without limitation, multifamily properties, land, hotels, offices and condominiums), small-to-large-balance commercial loans and loans related to rental finance and similar businesses.

#### Leverage and Hedging.

The Advisers may use leverage for liquidity and investment purposes, subject to a Client’s offering documents, organizational documents and investment management agreement. Leverage, including subscription financing, may be achieved through, among other methods, direct borrowing, purchases of securities on margin and the use of options, futures, forward contracts, repurchase and reverse repurchase agreements and swaps. The Advisers may (but need not) employ various hedging techniques to reduce actual or potential risks to which a Client’s portfolio may be exposed. The Advisers may invest in various securities, derivatives, indexes and cash equivalents and related instruments both to hedge the Clients’ portfolio positions and currency risk and to opportunistically seek to meet the Clients’ investment objectives, including (i) futures and forward contracts, (ii) swaps, including, without limitation, credit default swaps, baskets of credit default swaps, total return swaps, index swaps and interest rate swaps, (iii) options, warrants, caps, collars, floors, swaptions and forward rate agreements and (iv) other synthetic opportunities (*e.g.*, ABX, IOS, PRIMEX and CMBX); (v) other securities (including equities), indexes, exchange traded funds and REITS; (vi) debt securitizations (which may include, among other things, CLOs); and (vii) cash (including U.S. treasuries and agency MBS).

The Advisers may, from time to time, adopt a temporary defensive investment strategy for the Clients by investing in investment grade and/or U.S. government or agency securities, money market funds, commercial paper, certificates of deposit and other money market

instruments and interest-bearing accounts and other similar interim investments for cash management.

### Risks Relating to Investment Strategies.

The investment programs for each of the Clients involve a substantial degree of risk. The Adviser has listed certain risks below; however, the list of risks is not comprehensive or complete. Clients and investors are strongly encouraged to review the risks of their investment program, as contained in a Client's private placement memorandum, a Client's organizational documents, the subscription documents related to an investment in a Client and/or as set forth in a Client's investment management agreement. In addition, while certain risks may be more important for certain investment strategies, certain risks may overlap and apply to multiple investment strategies.

#### *Risks Associated with Private Equity*

**Control Issues.** A Client may have control positions in addition to advisory roles in portfolio companies, along with certain contractual rights to protect its investments (including shareholder agreements, redemption rights and/or the right to place a designee of the Adviser or an Affiliate on the boards of directors or as a board observer of portfolio companies); however, such Clients may not always have control over its portfolio companies. A Client runs the risk of refusal of management or shareholders of portfolio companies to adopt the recommendations of such Client, disagreement with existing management and any investment losses resulting from such refusal or disagreement. Although the Adviser or an Affiliate may seek protective positions, including possible board representation, in connection with its private equity investments, to the extent a Client takes minority positions in companies in which it invests, the Advisers may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect such Client's position in such companies. Furthermore, in certain circumstances in which such Clients do not own 100% of the equity of a portfolio company, but have a controlling interest, the Adviser's or its Affiliate's actions may be limited by its fiduciary obligations to minority equity holders.

**Highly Leveraged Companies.** Private investments in highly leveraged companies involve a high degree of risk. Some of a Client's investments in companies will likely involve leverage, which in turn will increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In the event that any such company cannot generate adequate cash flow to meet debt service, a Client may suffer a partial or total loss of capital invested in the company, which, depending on the size of such Client's investments, could adversely affect the return on the capital of such Client.

**Follow-On Investments.** A Client may have the opportunity or be called upon to provide follow-on funding for a portfolio investment or may have the opportunity to increase its investment in a portfolio investment. For a variety of reasons, the Advisers may decide not to make additional investments in the financial instruments of companies in which a Client already has an investment. The Advisers may elect not to make such additional investments

because, among other reasons, a Client lacks available capital to do so or the Advisers does not want to increase the concentration of the Client's investments. Declining to invest in such additional investments could have a substantial negative impact on a portfolio company in need of capital, may diminish a Client's ability to influence the portfolio company's future development, may result in dilution of a Client's investment in the portfolio company and could impair the value of such underlying company and, in turn, the value of the instruments pertaining to such company that are owned by a Client. In the event a Client elects to participate in follow-on funding for a portfolio investment, there is a risk that the follow-on funding does not preserve, protect or enhance the existing investment, and a Client may lose both its initial investment and the follow-on investment.

### *Risks Associated with Investments in Real Estate*

**General Real Estate Risks.** Certain Client investment strategies involve direct investments in real property as well as investments in financial instruments and assets secured by real estate and other real estate-related investments. Real estate and real estate-related investments generally will be subject to the risks incident to the ownership and operation of real estate and/or risks incident to the making of non-recourse mortgage loans secured by real estate, including risks associated with: (i) the domestic and international general economic climate (for example, market fluctuations that cause plant closings, military base closings, industry slowdowns and unemployment rates to rise); (ii) demographic factors; (iii) changes in interest rates and foreign exchange rates; (iv) changes in the availability of debt financing and/or mortgage funds which may render the sale or refinancing of properties difficult or impracticable; (v) increased mortgage defaults; (vi) increases in borrowing rates; (vii) dependence on cash flow; (viii) the financial resources of issuers and borrowers; (ix) local real estate conditions (such as, decreases in property values, changes in supply and demand for competing properties in an area (as a result, for instance, of overbuilding)) and fluctuations in real estate fundamentals (such as average occupancy and room rates for hotel properties); (x) real estate development and construction risks, including operating costs and time projection; (xi) the ability of a Client or third-party borrowers to manage, maintain and operate the real properties (for example, problems arising out of energy and supply shortages); (xii) the financial condition of tenants, buyers and sellers of properties; (xiii) regulatory limitations on rents; (xiv) changes in certain regulations and laws (such as zoning, environmental and building laws); (xv) changes in real property tax rates and/or tax credits; (xvi) various uninsured or uninsurable risks; and (xvii) natural disasters. With respect to investments in the form of real property owned by a Client, such Client will incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon and ultimately disposing of such property.

With respect to investments in equity securities, debt securities or other financial instruments, including REITs, the securities generally will be subject to the risks incident to the ownership and operation of real estate and/or risks incident to the making of non-recourse mortgage loans secured by real estate. The Clients will also in large part be dependent on the ability of third parties to successfully operate the underlying real estate assets. In addition, Clients may invest in mortgage loans that are structured so that all or a substantial portion of the principal

will not be paid until maturity, which increases the risk of default at that time. A Client's investment strategy, which may involve the acquisition of distressed or underperforming assets in a leveraged capital structure, will involve a high degree of legal and financial risk, and there can be no assurance that such Client's rate of return objectives will be realized or that there will be any return of capital. There is no assurance that there will be a ready market for resale of investments because investments in real-estate-related assets generally are not liquid. Illiquidity may result from the absence of an established market for the investments, as well as from legal or contractual restrictions on their resale by the Clients. The possibility of partial or total loss of capital exists.

**Real Estate Development and Construction Risks.** A Client may acquire equity and/or debt interests in real estate developments and/or in businesses that engage in real estate development. To the extent that a Client invests in such development activities, it will be subject to the risks normally associated with such activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of such Client or the Advisers, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the financial condition and results of operations of the Clients.

**Single-Family Homes.** At present, the institutional single-family rental industry is still evolving, with few participants, and its long-term viability has not yet been fully demonstrated. Rental housing properties are part of a market that, in general, is characterized by low barriers to entry. Thus, a particular rental housing property market with historically low vacancies could experience substantial new construction and a resultant oversupply of rental units within a relatively short period of time. Because rental housing properties are typically leased on a short-term basis, the tenants residing at a particular property may easily move to alternative properties with more desirable amenities or locations, or available for lower rent. The following conditions will impair the value of investments: lower occupancy rates, turnover of tenants, reductions in rents, uncollectible rent and increasing costs of improvements and other economic concessions.

#### *Risks Associated with Investments in Global Credit Opportunities*

**Bank Loans, Participations and Other Indirect Economic Interests.** Certain Clients' investment programs include investments in bank loans, participation interests, or other indirect economic interests in loans or other debt obligations. In such circumstances, the Clients will not directly own the debt obligations underlying such participation or other economic interests and/or have custody thereof. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; (iv) limitations on the ability of the Clients to directly enforce their rights with respect to participations; and (v) possible claims for the return of

some or all payments made within a certain time frame under the bankruptcy and creditor rights laws of the United States, its states, and other jurisdictions. In analyzing each bank loan or participation, the Advisers compare the relative significance of the risks against the expected benefits of the investment. The costs of claims by third parties arising from these and other risks will be borne by the Clients.

As an owner of participation interests or other indirect economic interests (including as a member of a loan syndicate), a Client may not be able to assert any rights against borrowers of the underlying indebtedness, and may need to rely on the holder/custodian (or other financial institution) issuing the participation interests or such other entity charged with the responsibility for asserting such rights, if any. Such holders/custodians and financial institutions or other entities may have reasons not to assert their rights, whether due to a limited financial interest in the outcome, other relationships with the underlying defaulting borrowers, the threat of potential counterclaims or other reasons, that may diverge from the interests of a Client. The failure of such holders/custodians and financial institutions or other entities to assert their rights (on behalf of a Client) or the insolvency of such entities could materially adversely affect the value of the assets of a Client.

As secondary market trading volume increases, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and private syndication of the loan, such loans are not as easily purchased or sold as publicly traded securities, and historically the trading volume in the loan market has been small relative to other markets.

**Risks Associated with NPLs.** Certain loans purchased by the Advisers for certain Clients will be non-performing and possibly in default. Furthermore, the obligor and/or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments with respect to the loans. By their nature, these investments will involve a high degree of risk.

Such NPLs may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of the principal of the loan and/or the deferral of payments. Commercial and industrial loans in workout and/or restructuring modes and the bankruptcy or insolvency laws of non-U.S. jurisdictions are subject to additional potential liabilities, which may exceed the value of a Client's original investment. Even assuming that the collateral securing each loan provides adequate security for the loans, substantial delays could be encountered in connection with the restructuring, foreclosure or liquidation of NPLs. In the event of a default by a borrower, these restrictions, as well as the ability of the borrower to file for bankruptcy protection, among other things, may impede the ability to foreclose on or sell the collateral or to obtain net liquidation proceeds sufficient to repay all amounts due on the related loan. In addition, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or

may be found liable for damages suffered by parties as a result of such actions. Under certain circumstances, payments to a Client and distributions by a Client to its investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. Bankruptcy laws may delay the ability of a Client to realize on collateral for loan positions held by it or may adversely affect the priority of such loans through doctrines such as equitable subordination or may result in a restructure of the debt through principles such as the “cramdown” provisions of the bankruptcy laws.

**General Credit Risks.** Although the Advisers generally intend to primarily invest on behalf of Clients in loans and other debt instruments or obligations that are secured by collateral, Clients may be exposed to losses resulting from default and foreclosure of any such loans or interests in loans or other debt instruments in which it has invested. Therefore, the value of underlying collateral, the creditworthiness of borrowers and the priority of liens are each of great importance in determining the value of a Client’s investments. No guarantee can be made regarding the adequacy of the protection of a Client’s security in the loans or other debt instruments in which it invests. Moreover, in the event of foreclosure, a Client or an affiliate thereof may assume direct ownership of any assets collateralizing such foreclosed loans. The liquidation proceeds upon the sale of such assets may not satisfy the entire outstanding balance of principal and interest on such foreclosed loans or other debt, resulting in a loss to such Client. Any costs or delays involved in the effectuation of loan foreclosures or liquidation of the assets collateralizing such foreclosed loans will further reduce proceeds associated therewith and, consequently, increase possible losses to such Client. In addition, no assurances can be made that borrowers or third parties (which may include other creditors) will not assert claims in connection with foreclosure proceedings or otherwise, or that such claims will not interfere with the enforcement of a Client’s rights with respect to its investments.

**Ability to Lend on Advantageous Terms; Competition and Supply.** A Client may originate loans and may also invest in loans originated by other parties (including, without limitation, debt that trades on the secondary market). Success in this area will depend in part on the ability of a Client to originate and obtain loans, and the Advisers’ or such other parties’ ability to originate or source loans, on advantageous terms. In making loans, the Clients will compete with a broad spectrum of lenders, some of which may be willing to lend money on terms more favorable to borrowers. Such competing lenders may include private investment funds, public funds, commercial and investment banks, commercial financing companies and other entities. Some competitors may have a lower cost of funds and/or access to funding sources that are not available to the Clients or the Advisers. In addition, some competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than the Clients and the Advisers. The Clients and the Advisers may also choose not to compete for investment opportunities based on interest rates. Ultimately, increased competition for, or a diminution in the available supply of, qualifying borrowers may result in lower yields on loans to such borrowers, which could reduce returns to the Clients and their investors.

**Equitable Subordination.** Under the laws of certain jurisdictions, a court may use its equitable powers to subordinate the claim of a lender to some or all of the other claims

against a borrower under certain circumstances. The concept of equitable subordination is that a claim may normally be subordinated only if its holder is guilty of some misconduct. The remedy is intended to be remedial, and not penal. In determining whether equitable subordination of a claim is appropriate in any given circumstance, courts may look to whether the following conditions have been satisfied: (i) whether the claimant has engaged in some type of inequitable conduct; (ii) whether the misconduct has resulted in injury to the creditors of the bankrupt company or conferred an unfair advantage on the claimant; and (iii) whether equitable subordination would be inconsistent with other applicable provisions of the bankruptcy code. While the stated test could be interpreted broadly, equitable subordination is usually confined to three general paradigms: (x) when a fiduciary of the debtor (who is also a creditor) misuses its position to the detriment of other creditors; (y) when a third party (which can include a lender) controls the debtor to the disadvantage of other creditors; and (z) when a third party actually defrauds other creditors. A Client may be subject to claims from creditors of an obligor that debt assets of such obligor which are held by such Client should be equitably subordinated. The concept of equitable subordination (or the equivalent thereof) may vary from jurisdiction to jurisdiction.

**Recharacterization.** Under the laws of certain jurisdictions, a court may use its equitable powers to “recharacterize” the claim of a lender, *i.e.*, notwithstanding the characterization by the lender and borrower of a loan advance as a “debt,” to find that the advance was in fact a contribution in exchange for equity. Typically, recharacterization occurs when an equity holder asserts a claim based on a loan made to the borrower at a time when the borrower was in such poor financial condition that other lenders would not make such a loan. In effect, a court that recharacterizes a claim makes a determination that the original circumstance of the contribution warrants treating the holder’s advance not as debt but rather as equity. In determining whether recharacterization is warranted in any given circumstance, courts may look at the following factors: (i) the names given to the instruments (if any) evidencing the indebtedness; (ii) the presence or absence of a fixed maturity or scheduled payment; (iii) the presence or absence of a fixed rate of interest and interest payments; (iv) the source of repayments; (v) the adequacy or inadequacy of capital; (vi) the identity of interest between the creditor and the equity holders; (vii) the security (if any) for the advances; (viii) the borrower’s ability to obtain financing from outside lending institutions; (ix) the extent to which the advances were subordinated to the claims of outside creditors; (x) the extent to which the assets were used to acquire capital assets; and (xi) the presence or absence of a sinking fund to provide for repayment. These factors are reviewed under the circumstances of each case, and no one factor is controlling. A Client may be subject to claims from creditors of an obligor that debt obligations of such obligor held by a Client should be recharacterized.

**Fraud.** Clients could be adversely affected by material misrepresentations or omissions on the part of a borrower or counterparty or by fraudulent behavior by a joint venture partner, manager or other service provider. Inaccuracies or incompleteness of representations may adversely affect the valuation of collateral underlying loans and may adversely affect the ability of a Client to perfect or effectuate a lien on the collateral securing a loan. Fraudulent behavior by a counterparty could result in the misappropriation of a Client’s funds or otherwise reduce the value of one or more of a Client’s investments. Clients will rely upon due diligence by the Advisers and the accuracy and completeness of representations made by

borrowers, other counterparties, joint venture partners, managers and other service providers and cannot guarantee that it will detect occurrences of fraud. In addition, under certain circumstances, payments by borrowers to a Client may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential distribution.

**Risks Associated with Foreclosure on Real Estate and Physical Assets.** Certain loans made by Clients are secured by real estate or other physical assets. To the extent a Client needs to foreclose on such loans such Client may, directly or indirectly, own such real estate or other physical assets and may be subject to the risks incident to the ownership and operation of real estate or other physical assets, including the risks identified in “General Real Estate Risks”, below. In addition, a Client may, directly or indirectly, incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon and ultimately disposing of such property. There is no assurance that there will be a ready market for resale of real estate or such other assets or that such real estate collateral will be sufficient to satisfy such defaulted loan obligation.

**Investments May Be Volatile.** A principal risk in investing in distressed investments is the traditional volatility in the market prices of such investments. Price movements of the instruments in which a Client’s assets may be invested may be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, a national or international health crisis (*e.g.*, COVID-19) and national and international political and economic events and policies. Fluctuations or prolonged changes in the volatility of such instruments, therefore, can adversely affect the value of investments held by a Client. Many non-U.S. financial markets are not as developed or as efficient as those in the U.S., and as a result, price volatility may be higher for a Client’s non-U.S. investments. In addition, governments from time to time intervene in certain markets. Such intervention often is intended directly to influence prices and may cause or contribute to rapid fluctuations in asset prices, which may adversely affect a Client’s returns.

**Unrated or Below Investment Grade Loans and Debt Instruments.** Subject to the specific terms of a Client as set forth in such Client’s private placement memorandum, such Client’s organizational documents, the subscription documents related to an investment in such Client and/or the investment management agreement with such Client, there are generally no restrictions on the credit quality of loans and debt instruments that may be invested in by a Client. Certain of these investments may be unrated and whether or not rated, such debt instruments may have speculative characteristics. The market values of certain of these lower-rated and unrated loans and debt instruments tend to reflect individual corporate developments and changes in economic conditions to a greater extent than do higher-rated debt instruments. As a result, the market prices of such loans and debt instruments may be subject to abrupt and erratic movements in price and liquidity. Borrowers that are the subject of such loans and that issue such debt instruments are often highly leveraged and may not have available to them more traditional methods of financing.

**Illiquid Nature of Investments and Loans.** A Client may hold a significant portion of its loans and other debt investments until redeemed or maturity and that many of its investments may be illiquid. Additionally, investments (including investments in Risk Retention Entities) may not be readily disposable and, in some cases, may be subject to contractual, statutory or regulatory prohibitions on disposition for a specified period of time. Should the Advisers determine it to be advisable to earlier dispose of any illiquid investments, a Client may have difficulty doing so. Alternatively, a Client may only be able to sell such investments or loans at substantial discounts to face value. In certain circumstances, a Client may be prohibited by contract from selling investments for defined periods of time. Depending on the type of investments or loans held by a Client, such investments and loans may require a substantial period of time to liquidate. There can be no assurances that there will be a liquid market for resale of such investments or loans, and illiquidity may result from the absence of an established market for certain investments and loans as well as from legal or contractual restrictions.

**Investments in Private Middle-Market Companies.** In addition to limited liquidity, investments in loans issued to, and debt instruments of, private middle-market companies may involve a number of additional risks. Generally, little public information exists about such companies, and a Client will rely on the ability of the Advisers to obtain adequate information to evaluate the potential returns from investing in such loans or debt instruments. If a Client is unable to uncover all material information about such companies, it may not make a fully-informed investment decision, and may lose money. Private middle-market companies typically have shorter operating histories, less predictable operating results, narrower product lines, and smaller market shares than larger businesses, which characteristics tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns. Private middle-market companies are also more likely to depend on the management talents and efforts of a small group of persons, the loss of which could have a material adverse impact. In addition, private middle-market companies may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. As a consequence, certain loans invested in by a Client could be or become NPLs and borrowers could default with respect to such loans.

**Syndication and/or Transfer of Debt Instruments.** A Client, directly or through the use of one or more SPVs, may originate and/or purchase senior secured loans and other assets. A Client may also purchase loans or other assets (including, participation interests or other indirect economic interests) that have been originated by one or more of the Clients or from other parties and/or trading on the secondary market. A Client may in certain circumstances, originate or purchase such secured debt assets with the intent of syndicating and/or otherwise transferring or offering for transfer a significant portion thereof (including, without limitation, corresponding portions of outstanding principal and future interest, and a corresponding amount of unamortized fees, but excluding any service fees), including to one or more other Clients. In such instances, such Client will bear the risk of any decline in value prior to any syndication and/or other transfer to other Clients or third parties, as well as the risk of any inability to syndicate or otherwise transfer such loans or other assets or such

amount thereof as originally intended (and including as a result of any such loans not being approved by such established independent committee of certain Clients to which they are offered), which could result in such Client owning a greater interest therein than originally anticipated.

**Investments in Loans Originated by Affiliates.** Non-Originating Funds (as defined in Item 11) may purchase secured loans originated by the Originating Funds (as defined in Item 11) and offered to Non-Originating Funds for purchase in accordance with the Investment Allocation Policy. All investment decisions made by such Originating Funds are made by the Adviser. Any such purchases of loans by a Non-Originating Fund from such Originating Lending Fund (excluding any 45 day “look back” allocation adjustments of secondary loan purchases made in accordance with the Investment Allocation Policy) will be subject to the approval of such Non-Originating Fund’s independent investment committee, which may accept or reject the offer of such loans in its discretion, and such purchases will be effected at the fair market value thereof at such time. Any such purchase of loans by the Non-Originating Funds from one or more Originating Funds will include the corresponding portions of outstanding principal and future interest, as well as certain unamortized loan fees as described below, but the Non-Originating Funds will not be entitled to any fees paid by a borrower for services rendered or to be rendered, including, but not limited to, agency fees, assignment fees, management fees, servicing fees, sub-advisory fees or other fees for services earned by the loan seller or loan originator or by an underwriter, placement agent, lender, arranger, agent or similar person in connection with the issuance or funding of a loan (such fees paid by a borrower, collectively, “Service Fees”). Any such Service Fees received by an affiliate of the Adviser from a portfolio borrower will be applied for the benefit of the Originating Funds invested in such borrower and will not be shared by any Non-Originating Funds, nor will any such Service Fees offset any management fees of any Non-Originating Funds. Commitment fees, upfront fees, anniversary fees, facility maintenance fees, discounts or any other similar “fees” that provide the borrower the “option” to borrow under a loan where such fees operate for tax purposes like option premium, original issue discount or an interest-like return are not treated as Service Fees and may be received by both Originating Funds and Non-Originating Funds.

**Performance Variation Across Clients in the CBF Platform.** Performance results among the Lending Funds are expected to vary as a result of numerous factors, including differences with respect to, among other things, fund investment limitations, the use of fund leverage (if any), fund vintage and investment period, fund expenses and other capital activity, as well as differing tax, regulatory, legal and other considerations.

Additionally, since Non-Originating Funds do not participate in the origination of loans, their performance is expected to differ from Originating Funds for several additional reasons, including the following: first, the Non-Originating Funds will not share in the interest income accrued from the date of origination in which the Originating Funds hold originated loan investments until the date of any such transfer to such Non-Originating Funds; second, the Non-Originating Funds will share in the unamortized component of closing fees with respect to loans originated by the Originating Funds and will not share in any Service Fees in respect of such loans; third, if a targeted loan origination by the Originating Funds does not ultimately close, the Non-Originating Funds will not share in any broken-deal or failed

transaction expenses (for the avoidance of any doubt, unless stated otherwise in the governing documents of a Client, Non-Originating Funds do not share in broken-deal and failed transaction expenses for non-Adviser originated loans); fourth, the Non-Originating Funds are expected to hold the underlying originated loan investments for a shorter duration (or ultimately may not acquire such loan), which may result in a different internal rate of return relative to the Originating Funds; fifth, during the period prior to any transfer of an originated loan to the Non-Originating Funds, the valuation of such loan may change; sixth, due to certain legal, tax or regulatory considerations, certain loans originated by Originating Funds may not be transferred to certain Non-Originating Funds (or may be transferred in smaller amounts than otherwise would be the case) and the portfolios of the Non-Originating Funds are expected to consist of a greater amount of loans originated by third parties relative to the Originating Funds, some of which secondary loans may be allocated only to such Non-Originating Funds due to the applicable tax structure or other requirements; lastly, the portfolios of the Originating Funds and the Non-Originating Funds may also differ as a result of approval determinations made by the established independent committees of such Non-Originating Funds with respect to proposed transfers of loans originated by the Originating Funds.

**Participations and other Indirect Economic Interests.** A portion of the assets of a Client may consist of participation interests or other indirect economic interests in loans or other assets. In such circumstances, such Client will not directly own the loans or other assets underlying such participation or other economic interests and/or have custody thereof. As a result, such Client will be exposed to the risk that the assets of the holder/custodian of any such underlying loans or other assets may be subject to the claims of third-party creditors or other parties. In addition, as an owner of participation interests or other indirect economic interests (including as a member of a loan syndicate), such Client may not be able to assert any rights against borrowers of the underlying indebtedness, and may need to rely on the holder/custodian (or other financial institution) issuing the participation interests or such other entity charged with the responsibility for asserting such rights, if any. Such holders/custodians and financial institutions or other entities may have reasons not to assert their rights, whether due to a limited financial interest in the outcome, other relationships with the underlying defaulting borrowers, the threat of potential counterclaims or other reasons, that may diverge from the interests of such Client. The failure of such holders/custodians and financial institutions or other entities to assert their rights (on behalf of such Client) or the insolvency of such entities could materially adversely affect the value of the assets of such Client.

**Distressed Borrowers; Bankruptcy Risks.** A Client may invest in loans and debt instruments of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns to a Client, they involve a substantial degree of risk. Distressed borrowers may be less likely to meet their obligations in connection with such loans or debt instruments, and the inability to meet such obligations may result in certain loans of a Client becoming nonperforming. The level of legal and financial sophistication necessary for successful investment in the loans issued to, or the debt instruments of, companies experiencing significant business and financial

difficulties is unusually high. There is no assurance that the Advisers will correctly evaluate the value of the assets collateralizing the loans invested in by a Client or the prospects for a successful reorganization or similar action, if any, or the general performance of such loans. In addition, to the extent that a Client invests in loans or debt instruments with respect to companies that subsequently undergo bankruptcy or similar liquidation proceedings, such investments may be subject to additional risks. Many of the events within a bankruptcy case are adversarial and often beyond the control of creditors. Although creditors generally are afforded an opportunity to object to significant actions, there is the possibility that a bankruptcy court could approve actions that may be contrary to the interests of a Client. The duration of bankruptcy proceedings is often difficult to accurately predict, and such proceedings may be lengthy. The administrative costs in connection with bankruptcy proceedings are frequently high and will be paid out of the debtor's estate (other than out of assets or proceeds thereof that are subject to valid and enforceable liens and other security interests) prior to any return to unsecured creditors and equity holders. In connection with a bankruptcy proceeding, the Advisers, on behalf of a Client, may seek representation on creditors' committees or other groups to ensure preservation or enhancement of a Client's position as a creditor. If a Client is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of its investments in such company while it continues to be represented on such committee or group. In addition, a Client's return on investment can be adversely affected by the passage of time during which the plan of reorganization of a bankrupt debtor is being negotiated, approved by the creditors and confirmed by the bankruptcy court. Reorganizations outside of bankruptcy are also subject to unpredictable and potentially lengthy delays.

**Priority of Debt Instruments and Loans.** A Client may originate or invest in secured debt issued by companies that have or may incur additional debt that is senior to the secured debt owned by such Client. In many instances, loans made by a Client may be part of a unitranche structure in which a single lien on behalf of all the lenders in the structure will be filed against the assets of the company if the lenders holding the different tranches of debt (including such Client) will contractually agree to their respective priorities in those assets. In the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of any such company, the owners of senior secured debt (*i.e.*, the owners of first priority liens), including in a unitranche structure through the contractual agreements between the lenders, generally will be entitled to receive proceeds from any realization of the secured collateral until they have been reimbursed. At such time, the owners of junior secured debt (including, in certain circumstances, a Client) will be entitled to receive proceeds from the realization of the collateral securing such debt and only thereafter would the owners of unsecured debt be entitled to any recovery. There can be no assurances that the proceeds, if any, from the sale of such collateral would be sufficient to satisfy the loan obligations secured by subordinate debt instruments. To the extent that a Client owns secured debt that is junior to other secured debt, such Client may lose the value of its entire investment in such secured debt.

**Interest Rate Risk; Prepayment.** A Client may invest in fixed interest rate debt instruments. The value of fixed interest rate debt instruments generally has an inverse relationship with future interest rates. Accordingly, if interest rates rise, the value of such instruments may decline. In addition, to the extent that the receivables or loans underlying specific financial instruments may be prepaid without penalty or premium, the value of such

financial instruments may be negatively affected by increasing prepayments. Such prepayments tend to occur more frequently as interest rates decline.

**Fluctuations in Receipt of Proceeds.** The Adviser expects to experience fluctuations in the timing and amount of proceeds a Client may receive in the form of interest and fee income and in connection with the realization of investments in loans and other debt instruments in which such Client has invested. Such fluctuations are due to, among other things, changes in the interest rates payable on the debt instruments acquired by a Client, the default rate on such debt instruments, the level of a Client's expenses (including the interest rates payable on a Client's borrowings), variations in and the timing of the realization of investments, the degree to which a Client encounters competition in the markets and general economic conditions. As a result of these factors, the amounts of distributions to a Client's investors may fluctuate substantially.

#### *General Risks*

**Risks Associated with Investments in Stressed and Distressed Securities and Assets.** Certain Clients typically invest in securities, debt and assets of U.S. and non-U.S. companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns to such Clients, they involve a substantial degree of risk. Any one or all of the issuers of the securities or debt in which such Clients may invest may be unsuccessful or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in entities experiencing significant business and financial difficulties is unusually high.

Investments in assets operating in workout mode or bankruptcy, or the equivalent in foreign jurisdictions, are, in certain circumstances, subject to certain additional potential liabilities which may reduce the value of a Client's investment.

Furthermore, with respect to a Client's investments in secured loans and ABS, there is no assurance that the Advisers will correctly evaluate the value of the assets collateralizing such Client's loans or securities or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which a Client invests, a Client may lose its entire investment, may be required to accept cash or securities with a value less than the Client's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Client's investments may not compensate a Client adequately for the risks assumed. Investments in troubled companies, their sub-performing or non-performing loans and other investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by the Advisers. To the extent that the Advisers become involved in such proceedings, Clients may have a more active participation in the affairs of the issuer than that assumed generally by an investor. In addition, involvement by the Advisers in an issuer's reorganization proceedings could result in the imposition of restrictions limiting a Client's ability to liquidate its position in the issuer.

Investments for Clients may be made in bonds or other fixed-income securities, including, without limitation, higher yielding (and, therefore, higher risk) debt securities that are below investment grade and face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates. 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 securities rated below investment grade.

A Client may purchase loans that may be in default or are from issuers in financial distress or bankruptcy proceedings. As with other types of debt instruments, loans involve the risk of loss in case of default or insolvency of the borrower. Such loans are also less liquid than are the debt instruments of publicly traded companies

**Investments May Be Volatile.** A principal risk in investing in distressed investments is the traditional volatility in the market prices of such investments. Price movements of the instruments in which Clients' assets may be invested may be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, a national or international health crisis (*e.g.*, COVID-19) and national and international political and economic events and policies. Fluctuations or prolonged changes in the volatility of such instruments, therefore, can adversely affect the value of investments held by such Client. Many non-U.S. financial markets are not as developed or as efficient as those in the U.S., and, as a result, price volatility may be higher for such Client's non-U.S. investments. In addition, governments from time to time intervene in certain markets. Such intervention often is intended directly to influence prices and may cause or contribute to rapid fluctuations in asset prices, which may adversely affect a Client's returns.

**Illiquid Nature of Stressed and Distressed Investments.** The market for stressed and distressed investments will most likely be less liquid than the market for investments that are not stressed or distressed. At times, a major portion of a stressed or distressed security or asset may be held by relatively few investors. Furthermore, at times, a large portion of a Client's portfolio may be invested in investments for which there is no current liquidity. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of an issuer or borrower, a Client may find it more difficult to sell an investment when the Adviser or an Affiliate believes it advisable to do so or may be able to sell such investment only at a price lower than if the investment were more widely held. In some cases, a Client may be prohibited by contract from selling investments for a period of time. In addition, with respect to NPLs, because of the unique and customized nature of a loan agreement, loans generally may not be purchased or sold as easily as publicly traded securities. Loans may encounter trading delays due to their unique and customized nature, and transfers may require the consent of an agent bank or borrower. In addition, the types of

investments held by a Client may be such that they require a substantial length of time to liquidate.

The Advisers may invest on behalf of the Clients in the debt of stressed and distressed underlying issuers, as well as unregistered securities. There is no assurance that there will be a ready market for resale of such investments. Illiquidity may result from the absence of an established market for certain investments as well as legal or contractual restrictions on their resale by a Client. To the extent that there is a market for such unregistered securities, the market will be limited to a narrow range of potential counterparties, such as institutions and investment banks. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter (“OTC”) markets. As a consequence, the Clients’ ability to participate in or liquidate such investments may be restricted and the value of such investments may be subject to wide fluctuation.

**Risks of Litigation.** Many investment strategies can be contentious and adversarial. Different investor groups may have qualitatively different, and frequently conflicting, interests. A Client’s investment activities may include activities that are hostile in nature and will subject such Client to the risk of becoming involved in litigation by third parties. This risk may be greater if a Client exercises control or significant influence over a company’s direction. The expense of defending claims against a Client by third parties and paying any amounts pursuant to settlements or judgments will be borne by such Client and would reduce net assets and could require the investors to return distributed capital and earnings to a Client. The Adviser and its Affiliates will be indemnified by a Client in connection with such litigation, subject to certain conditions described in such Client’s private placement memorandum, such Client’s organizational documents, the subscription documents related to an investment in such Client and/or as set forth in such Client’s investment management agreement.

**Joint Ventures and Pooled Investment Vehicles, Including Investments in Secondary Partnership Interests.** Certain Clients may invest a portion of their portfolio in pooled investment vehicles (subject to the limitations on a Client’s investments in blind pools) or enter into joint ventures or other agreements with third parties holding (or agreeing to purchase) the same investments as such Client for purposes of making investments or collectively pursuing a particular strategy or investment (each such partner, a “Strategic Partner”). Under such agreements, the Strategic Partner may take a lead role in managing the investments or implementing such joint strategies or investments and control certain decisions (including major decisions) with respect to such investment, and, as a result, be compensated through fees, a profit participation or some other form of compensation. In other circumstances, a Client may initially control an investment, but may enter into arrangements pursuant to which its authority can be terminated or may otherwise be removed from a control position upon the occurrence of certain events, even if a Client has control at the inception of the investment. Certain joint ventures in which a Client participates may not be exclusive. For example, a Strategic Partner may enter into similar arrangements with one or more other third parties in which a Client will not participate and, in turn, the lack of

exclusivity may adversely impact the success of any joint ventures in which a Client does participate. The Advisers may enter into such arrangements with Co-Investors in circumstances where the Advisers are being paid additional compensation from the Co-Investors. The Advisers may be subject to a conflict in negotiating such arrangements since the Advisers may be more likely to agree to a removal provision in transactions where additional compensation is being paid to the Advisers. The Client will act in a manner that is consistent with its fiduciary duties to the Clients when considering such arrangements.

To the extent such investments or agreements are made, such Client will bear its *pro rata* share of the investment management fees, profit participations (or promotes), other fees and/or expenses charged by the manager of each such investment vehicle or Strategic Partner, in addition to other fees to the Advisers. A Client may bear multiple layers of fees and allocations that generally would not be incurred if the investments were made solely by a Client or directly (as opposed to through the pooled vehicle, joint venture or other agreement). These types of investments may involve a Client relying on the performance of third parties, thereby increasing the risk of manager misconduct or bad judgment, as well as limiting the Advisers' control over, and knowledge of, such Client's overall portfolio. A Client may not be able to withdraw capital from any such investment vehicle, even in situations where such investment vehicle or Strategic Partner is deviating from announced strategies or risk control policies and such Client may not have knowledge of such deviations. Further, a Strategic Partner may have the contractual right to withdraw from such arrangement for any or no reason, to the economic detriment of a Client. In selecting Strategic Partners, the Advisers will rely on a variety of both quantitative as well as qualitative factors, as well as the subjective judgment of its personnel.

**Lack of Control.** Certain Clients may invest in debt instruments and equity securities of companies that such Clients and the Advisers do not control, which such Clients may acquire through investments in blind pools, joint ventures, market transactions or through purchases of securities directly from the issuer or other shareholders. Such securities will be subject to the risk that the majority stakeholder or issuer may make business, financial or management decisions with which such Clients do not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Client's interests. In addition, certain Clients may share control over certain investments with Co-Investors, which may make it more difficult for such Clients to implement their investment approach or exit the investment when they otherwise would. The occurrence of any of the foregoing could have a material adverse effect on such Clients (and/or the underlying investors in such Clients).

**Risks Associated with Bankruptcy Cases.** Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of a Client. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those cases where a Client, by virtue of such action, is found to exercise "domination and control" of a debtor, such Client may lose its priority if the debtor or other

creditors can demonstrate that the debtor's business was adversely impacted or other creditors and equity holders were harmed by such Client.

Generally, the duration of a bankruptcy case can only be roughly estimated. Unless a Client's claim in such case is secured by assets having a value in excess of such claim, no interest will be permitted to accrue and, therefore, such Client's return on investment can be adversely affected by the passage of time during which the plan of reorganization of the debtor is being negotiated, approved by the creditors and confirmed by the bankruptcy court. The risk of delay is particularly acute when a creditor holds unsecured debt or when the collateral value underlying secured debt does not equal the amount of the secured claim. Under most circumstances, unless the debtor is proved to be solvent, no interest or fees are permitted to accrue after the commencement of the debtor's case, as a matter of U.S. bankruptcy law. Reorganizations outside of bankruptcy are also subject to unpredictable and potentially lengthy delays.

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

The Advisers, on behalf of a Client, may seek representation on equity holders' committees or, in limited circumstances, on creditors' committees or other groups to ensure preservation or enhancement of such Client's position as an equity holder or creditor. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If the Adviser or an Affiliate concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to such Client, it may resign from that committee or group, and such Client may not realize the benefits, if any, of participation on the committee or group. In addition, and also as discussed above, if such Client is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of its investments in such company while it continues to be represented on such committee or group.

The Adviser or an Affiliate, on behalf of a Client, may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser. The concept of unfair advantage (or the equivalent thereof) may vary from jurisdiction to jurisdiction.

A stay on payments to be made on the assets of a Client could adversely affect the value of those assets and the value of the Client's interests.

**Investments in Undervalued Assets.** Certain Clients may invest in undervalued assets, including operationally challenged companies, non-core/non-performing divisions or subsidiaries and businesses in liquidation. The identification of investment opportunities in

undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from a Client's investments may not adequately compensate such Client for the business and financial risks assumed. Clients should be aware that they may lose all or part of their investment in such assets.

The Adviser or an Affiliate, on behalf of a Client, may be forced to sell, at a substantial loss, assets which it believes are undervalued, even if they are not in fact undervalued. In addition, such Client may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a portion of such Client's funds would be committed to the assets purchased, thus possibly preventing such Client from investing in other opportunities. In addition, such Client may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

For reasons not necessarily attributable to any of the risks enumerated above or below (for example, supply/demand imbalances or other market forces), the prices of the financial securities in which a Client will invest may decline substantially. In particular, purchasing assets at what may appear to be "undervalued" levels is no guarantee that these assets will not be trading at even more "undervalued" levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such "spread widening" risk.

**Non-U.S. Investments Generally.** Certain Clients invest a portion of their assets outside of the U.S. In making such investments, appropriate consideration will be given to the factors described below, among others. Many financial markets are not as developed or efficient as others. The volume and liquidity in financial markets vary and, at times, the volatility of prices in some countries may be greater than others. In addition, there may be less publicly available information about issuers in some markets as opposed to issuers in other markets, and some issuers generally are not subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to other issuers.

Governments of many countries have exercised and continue to exercise substantial influence over many aspects of their economies and investments. Accordingly, government actions in the future could have a significant effect on economic actions in such countries, which could affect the value of private sector investment and assets.

The Clients may be subject to additional risks, which include national or international health crises (*e.g.*, COVID-19), possible adverse political and economic developments outside the U.S., possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions that might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Income, gain and gross proceeds received by a Client from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by a Client will reduce its net income or return from such investments. While

the Advisers will take these factors into consideration in making investment decisions for the Clients, no assurance can be given that the Clients will be able to fully avoid these risks.

Further, any change in taxation legislation by non-U.S. governments could affect the value of a Client's investments and its ability to achieve its investment objective, or alter the post-tax returns to such Client's investors.

Many of the laws that govern private and non-U.S. investment, securities transactions, creditors' rights and other contractual relationships in developing countries are new and largely untested. As a result, the Clients may be subject to a number of unusual risks, including inadequate investor protection; contradictory legislation; incomplete, unclear and changing laws; ignorance or breaches of regulations on the part of other market participants; lack of established or effective avenues for legal redress; lack of standard practices and confidentiality customs characteristic of developed markets; and lack of enforcement of existing regulations. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on a Client and its operations. Furthermore, it may be difficult to obtain and enforce a judgment in a court outside of the U.S. Regulatory controls and corporate governance of companies in developing countries may confer little protection on investors. Anti-fraud and anti-insider trading legislation is often rudimentary. The concept of fiduciary duty is also limited when compared to such concepts in Western markets. In certain instances, management of portfolio companies may take significant actions without the consent of investors.

**Investments in Emerging or Frontier Markets.** Certain Clients invest in emerging or frontier (including pre-emerging) markets. A Client may be subject to more substantial risks in political and macro-economic conditions that are not usually associated with similar investments in the U.S. and other industrialized democracies. The economies of emerging and frontier markets may perform favorably or unfavorably compared with more developed economies in such respects as growth of gross domestic product, rate of inflation, currency appreciation or depreciation, capital reinvestment, resource self-sufficiency and balance of payments. The economies of emerging and frontier markets generally are heavily dependent upon international trade and, accordingly, may be affected adversely by protective trade barriers and economic conditions in the countries with which they trade. In addition, the economies of certain emerging and frontier markets are vulnerable to weaknesses in world prices for their commodity exports. Some emerging and frontier markets have from time to time experienced high rates of inflation and have extensive external debt.

Emerging and frontier markets have in the past experienced, and may in the future experience, interest rate volatility, extensive external debt, lack of financial liquidity and stock market volatility, which have contributed to a decline in business and consumer spending in addition to other adverse market conditions. Although such events may at times create significant investment opportunities leading to attractive returns, there can be no assurance that economic and financial difficulties will not adversely affect the value of a Client's investments or make it more difficult for a Client to locate appropriate investment opportunities.

Differences may remain between the degree of sophistication of the legal systems of many developing countries and the degree of sophistication of the body of commercial law and practice typically found in more developed countries. The lack of comprehensive and enforceable legal systems in some developing countries may adversely affect a Client's investments and prevent a Client from effectively enforcing its rights. The validity and enforceability of contracts in such countries, particularly with governmental entities, is relatively uncertain. In addition, bankruptcy regulations in some emerging and frontier markets are still developing. There is no assurance that a Client could accurately anticipate the outcome of any bankruptcy proceedings in emerging and frontier markets.

**Sovereign Debt.** Certain Clients invest in debt issued by a national government in a foreign currency. Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued ("Sovereign Debt"); (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer's (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z) level of international currency reserves, which may affect the amount of non-U.S. currency available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt. Certain Clients may hold short positions or credit default swaps in Sovereign Debt.

**Currency Exchange Rate Exposure.** Certain Clients invest in securities, assets and other financial instruments denominated or quoted in various currencies other than the U.S. dollar and in other financial instruments, the price of which is determined with reference to such currencies. The Clients, however, will generally value their investments and other assets in U.S. dollars. To the extent unhedged, the value of a Client's assets denominated in currencies other than U.S. dollars will fluctuate with U.S. dollar exchange rates as well as with price changes of investments in the various local markets and currencies. Future and forward currency contracts and options may be utilized by a Client to hedge against currency fluctuations, but such Client is not required to hedge and there can be no assurance that such hedging transactions, even if undertaken, will be effective.

It is possible that some European sovereign debt issuers may seek to exit the European Union (the "EU") and the Euro, and reintroduce a national currency. It is possible, therefore, that a dispute may arise regarding the currency in which an underlying obligation, sovereign or private, must be repaid. There is a possibility that an issuer/obligor might ultimately be permitted to repay its debt in a different, less valuable, security depending upon the governing law of the contract and the provisions, if any, therein regarding the risk of redenomination. The legal analysis of this issue is not straightforward. There are multiple variables and any legal outcome will be fact and contract specific. It is difficult to predict the value of the currency that might be received by the holder of a debt instrument in such a circumstance, and any such exchange could have an adverse effect on a Client's investments.

Furthermore, in connection with the disposition of certain investments, a Client may be required to make representations about the business and financial affairs of the underlying

company or investment, and to indemnify the purchasers of such company or investment if those representations ultimately prove to be inaccurate.

**Equity Securities Generally.** Certain Clients invest in equity and equity-related securities and may also at times acquire equity in connection with a secured debt investment, as a result of a reorganization or as a consequence of loan foreclosure or foreclosure on the collateral securing such loans. Equity securities in general fluctuate in value in response to many factors, including the activities, results of operations and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates and general economic environments and movements in the equity markets in general. As a result, a Client may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Advisers' expectations or if equity markets generally move in a single direction and a Client has not hedged against such a general move.

Certain Clients may acquire equity in connection with a debt investment and may also invest, on an opportunistic basis, in standalone equity and equity-related securities, or acquire equity as a result of a reorganization or as a consequence of default or foreclosure on the collateral securing a Client's loans. Equity securities fluctuate in value in response to many factors, including the activities and financial condition of the issuer, the business market in which the issuer competes, industry market conditions, interest rates and general economic environments. As a result, a Client may suffer losses if the Adviser invests in equity instruments of issuers whose performance diverges from the Adviser's expectations or if equity markets generally move in a single direction.

**Derivative Transactions and Hedging.** Certain Clients utilize a variety of financial instruments, such as derivatives, options, swaps, caps, floors, futures, forward contracts, indices and short positions, both for investment and risk management purposes. A Client may utilize such instruments to: (i) protect against possible changes in the market value of such Client's investment portfolios resulting from fluctuations in the markets and changes in interest rates; (ii) protect such Client's unrealized gains in the value of its investments; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in such Client's portfolios; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of such Client's financial instruments or leverage; (vii) protect against any increase in the price of any financial instruments such Client anticipates purchasing at a later date; or (viii) act for any other reason that the Adviser or an Affiliate deems desirable or appropriate. While a Client may enter into hedging transactions to seek to reduce risk, such transactions may not be fully effective in mitigating the risks in all market environments or against all types of risk (including unidentified or unanticipated risks), thereby incurring losses to such Client. In addition, such hedging transactions may result in a poorer overall performance for such Client than if it had not engaged in any such hedging transactions. Moreover, the Advisers may determine not to hedge against, or may not anticipate, certain risks and the portfolio may be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular investments and counterparties).

Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, credit risk, legal risk and operations risk. The regulatory and tax environment for derivative instruments in which a Client may participate is evolving, and changes in the regulation or taxation of such instruments may have a material adverse effect on a Client.

**Call Options.** Certain Clients purchase and sell call options and there are risks associated with the sale and purchase of call options. The seller (writer) of a call option that is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. If the seller of the call option owns a call option covering an equivalent number of shares with an exercise price equal to or less than the exercise price of the call written, the position is “fully hedged” if the option owned expires at the same time or later than the option written. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The securities necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing securities to cover the exercise of an uncovered call option can cause the price of the securities to increase, thereby exacerbating the loss.

The buyer of a call option assumes the risk of losing its entire investment in the call option. If the buyer of the call sells short the underlying security, the loss on the call will be offset, in whole or in part, by any gain on the short sale of the underlying security (if the market price of the underlying security declines).

**Put Options.** Certain Clients purchase or sell (write) put options and there are risks associated with the sale and purchase of put options. The seller (writer) of a put option that is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security if the market price falls below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is “fully hedged” if the option owned expires at the same time or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option.

The buyer of a put option assumes the risk of losing its entire investment in the put option. If the buyer of the put holds the underlying security, the loss on the put will be offset, in whole or in part, by any gain on the underlying security.

**Short-Selling.** A Client’s investment program may include short-selling. Such practice can, in certain circumstances, substantially increase the impact of adverse price movements on such Client’s portfolio. A short sale of equity securities involves the theoretical risk of an

unlimited increase in the market price of securities sold short. A short sale of a debt instrument such as a bond involves the theoretical risk of an increase in the market price plus accrued interest. Moreover, short-selling is limited to securities that can be borrowed, and it may be necessary to cover short positions at an undesirable time and at undesirable prices because securities that were shorted can no longer be borrowed. In such cases, a Client can be “bought in” (*i.e.*, forced to repurchase securities in the open market to return to the lender).

For instance, a so-called “short squeeze” can occur when the price of securities in which a certain Client has an open short position rise sharply in a short time frame. A “short squeeze” may result in a Client having to prematurely close out a short positions at unattractively high prices, resulting in a substantial loss. Further, the risk of a “short squeeze” likely will increase if other short sellers, market participants, and/or lenders become aware of a Client’s short positions, including, without limitation, as a result of legally-required reporting with respect to the Client’s ownership of options to purchase the underlying security being shorted.

In addition to the risks of securities loan recalls or “short squeezes,” a Client may be required to provide additional margin to its counterparties, including its prime brokers, on short notice if the price of a security underlying a short position suddenly rises. If a Client is unable to deliver the additional margin required, a Client may need to prematurely close out the short position at unattractive prices, thereby resulting in a substantial loss. In addition, depending on the timing and magnitude of a price increase in respect of an open short position, a Client may be required to liquidate long positions in order to meet margin requirements, thereby further increasing the losses (or decreases the gains) of a Client.

There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. A number of jurisdictions, in response to COVID-19, have imposed bans on short selling certain equity securities (and in some cases derivatives linked to such securities). It is impossible to predict what, if any, changes in regulations may occur in the future, but any regulations which restrict the ability of a Client to trade in securities or the ability of a Client to employ, or brokers and other counterparties to extend, credit in its trading (as well as other regulatory changes that result) could have a material adverse impact on a Client’s investments.

**Futures Contracts.** Certain Clients invest in futures contracts. The value of futures depends upon the price of the instruments, such as commodities, underlying them. Futures contracts are expected to be used primarily for hedging purposes, which may include managing currency and general market risk. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to

the risk of the failure of any of the exchanges on which such Client's positions trade or of its clearinghouses or counterparties.

Futures positions may be illiquid because certain exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day, no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent a Client from promptly liquidating unfavorable positions and subject such Client to substantial losses or prevent it from entering into desired trades. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

**Forward Trading.** Certain Clients invest in forward transactions. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. For example, there are no requirements with respect to recordkeeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank-traded instruments rely on the dealer or counterparty being contracted with to fulfill its contract. As a result, trading in interbank foreign exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which a Client has a forward contract. Although the Advisers will seek to trade with reliable counterparties, failure by a counterparty to fulfill its contractual obligation could expose such Client to unanticipated losses. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade, and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any currency market traded by the Advisers due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which the Advisers would otherwise recommend, to the possible detriment of the Clients. Market illiquidity or disruption could result in major losses to the Clients.

**Investments in Pooled Investment Vehicles.** Subject to the limitations set forth in the governing documents of the Clients, certain Clients may invest a portion of its portfolio in pooled investment vehicles or enter into agreements with other parties holding (or agreeing to purchase) the same investments as a Client for purposes of collectively pursuing a particular strategy or investment (each such partner, a "Strategic Partner"). Under such agreements, the Strategic Partner may take a lead role in implementing such joint strategies

or investments and, as a result, be compensated through fees and/or a profit participation. To the extent such investments or agreements are made, a Client will bear its *pro rata* share of the investment management fees, incentive allocations, other fees and/or expenses charged by the manager of each such investment vehicle or Strategic Partner, in addition to a management fee and incentive allocation. A Client may bear multiple layers of fees and allocations that generally would not be incurred if the investments were made directly (as opposed to through the pooled vehicle). These types of investments may involve a Client relying on the performance of third parties, thereby increasing the risk of manager misconduct or bad judgment, as well as limiting the Advisers control over, and knowledge of, a Client's overall portfolio. A Client may not be able to withdraw capital from a Strategic Partner, even in situations where such Strategic Partner is deviating from announced strategies or risk control policies and a Client may not have knowledge of such deviations. In selecting Strategic Partners, the Advisers will rely on a variety of both quantitative as well as qualitative factors, as well as the subjective judgment of its personnel.

**Investment Through a REIT.** Certain Clients make certain investments through one or more investment vehicles that would elect to be treated as a REIT for federal income tax purposes. Without limiting the foregoing, the Advisers expect that, in order to realize certain tax, administrative and financial benefits, a Client must form and contribute capital and/or assets to the REIT, as discussed below. Complying with such requirements may be costly and may hinder the REIT and/or a Client's ability to operate solely on the basis of maximizing profits. For example, requirements concerning distributions may cause the REIT and/or Client to have to make distributions at inopportune times, such as when there are insufficient funds, causing the REIT and/or Client to have to (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, and/or (iii) distribute amounts that would otherwise be used to make future acquisitions or capital expenditures. Relatedly, requirements concerning assets and income may require the liquidation and/or restructuring of assets and may result in the REIT and/or Client being unable to effectively hedge against risks and/or to forgo otherwise attractive investment opportunities.

**Swap Agreements and Synthetic Assets.** A Client may acquire exposure to the risk of structured finance securities, debt securities and loans synthetically through products such as credit default swaps (including CDS and ABX and CDX contracts), total return swaps, credit-linked notes, structured notes, trust certificates and other derivative instruments (each, a "Synthetic Asset").

A Synthetic Asset could take many forms, including a credit derivative transaction that references a structured finance security, debt security and loan or a credit derivative transaction that references a portfolio or index of corporate reference entities or a portfolio or index of reference obligations consisting of structured finance securities, debt securities, bonds or other financial instruments (each, a "Reference Obligation"). Exposure to such Reference Obligations through Synthetic Assets presents risks in addition to those resulting from direct purchases of the assets referenced. Such Client will have a contractual relationship only with the Synthetic Asset counterparty, and not with the issuer(s) (the "Reference Entity") of the Reference Obligations unless a credit event occurs with respect to any such Reference Obligation, physical settlement applies and the synthetic asset

counterparty delivers the Reference Obligation to such Client. Other than in the event of such delivery, a Client generally will have no right directly to enforce compliance by the Reference Entity with the terms of any such Reference Obligation and such Client will not have any rights of set-off against the Reference Entity. In addition, a Client generally will not have any voting or other consensual rights of ownership with respect to the Reference Obligation. A Client also will not directly benefit from any collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. A Client will be subject to the credit risk of the Synthetic Asset counterparty, as well as that of the Reference Entity, as well as the documentation risk associated with these instruments.

In the event of the insolvency of the Synthetic Asset counterparty, such Client will be treated as a general creditor of such counterparty, and will not have any claim of title with respect to the Reference Obligation. Consequently, such Client will be subject to the credit risk of the Synthetic Asset counterparty, as well as that of the Reference Entity. As a result, concentrations of Synthetic Assets entered into with any one Synthetic Asset counterparty will subject such Synthetic Assets to an additional degree of risk with respect to defaults by such Synthetic Asset counterparty as well as by the respective Reference Entities.

While the Adviser expects that returns on a Synthetic Asset may reflect those of each related Reference Obligation, as a result of the terms of the Synthetic Asset and the assumption of the credit risk of the Synthetic Asset counterparty, a Synthetic Asset may have a different expected return, a different (and potentially greater) probability of default and different expected loss and recovery characteristics following a default.

**Repurchase and Reverse Repurchase Agreements.** A Client may enter into repurchase and reverse repurchase agreements. When a Client enters into a repurchase agreement, such Client effectively “sells” securities to a broker-dealer or financial institution, and agrees to repurchase such securities for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. While the securities are “sold” a Client may not be able to vote such securities on issues that may affect the ultimate value of the investment. In a reverse repurchase transaction, a Client “buys” securities from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by such Client, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by a Client involves certain risks including that the seller under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities. Disposing of the securities in such cases may involve costs to a Client.

Under repurchase agreements, if a Client’s financing counterparty believes that the securities pledged to it to secure a Client’s accounts have declined in value, a Client could be subject to a “margin call,” pursuant to which a Client must either deposit additional funds or securities with the financing counterparties or suffer mandatory liquidation of the pledged securities to compensate for the real or perceived decline in value of those securities. The financial institutions that may provide financing to a Client under these agreements may be able to apply essentially discretionary margin, haircut, financing and collateral valuation policies.

Financing institutions can also refuse to enter into new repurchase agreements. If any financing institution refuses to enter into a new repurchase agreement or demands too large of a haircut, then a Client may be compelled to liquidate assets at an inopportune time at a loss to a Client. Furthermore, as part of such arrangements, a Client may be required to agree to certain covenants related to a Client's net asset value and may be forced to fully repay the financing counterparties should a Client's net asset value decline more than a predefined amount in a given month or other period or be considered in default under such arrangements. Should a Client be declared to be in default under such arrangements, the financing counterparties may be empowered to sell or require the sale of the encumbered assets, and such forced liquidations of positions at disadvantageous prices could adversely affect a Client's profitability and result in substantial losses.

**Risks of Counterparty Default.** The stability and liquidity of repurchase agreements, swap transactions, forward transactions and other over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transactions. If there is a default by the counterparty to such a transaction, a Client will under most circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of a Client being less than if such Client had not entered into the transaction.

**General Risks Associated with CDO Investments.** Certain Clients invest in CDOs. The value of the CDOs generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets (the "CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and, following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished.

CDO Collateral may consist of high-yield debt securities, loans, ABS and other instruments (which often are rated below-investment-grade or of equivalent credit quality). High-yield debt securities and loans may be unsecured and subordinated to other obligations of the issuer. The lower ratings of high-yield securities and below-investment-grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer and/or economic conditions may impair the ability of the issuer or obligor to make payments of principal or interest.

A Client's portfolio may consist of CDO equity and subordinate CDO debt. Subordinate CDO debt generally is fully subordinated to the CDO's senior tranches. CDO equity generally is fully subordinated to any CDO debt tranches. To the extent that any losses are incurred by a CDO, such losses will be borne by holders of CDO equity, then by holders of any subordinated CDO debt and finally by holders of the CDO senior tranches. In addition, if an event of default occurs under the governing instrument or underlying investment, the holders of any CDO senior tranches outstanding generally will be entitled to determine the

remedies to be exercised under the instrument governing the CDO, which could be adverse to the interests of the holders of any subordinated CDO debt and/or the holders of the CDO equity, as applicable.

The lack of an established, liquid secondary market for some CDOs (and CDO equity in particular) may have an adverse effect on the market value of those CDOs and will in most cases make it difficult to dispose of such CDOs at market or near market prices. Additionally, the public markets for high-yield corporate debt securities have experienced periods of volatility and periods of reduced liquidity, and CDOs will be subject to certain other transfer restrictions that may contribute to illiquidity. Therefore, if a Client decides to dispose of any particular CDO, no assurance can be given that it will be able to dispose of such CDO at the prevailing market price, if at all. Such illiquidity may adversely affect the price and timing of liquidations of CDO securities by a Client.

**Insolvency of Issuers of CDOs.** If a court in a lawsuit brought by an unpaid creditor or representative of creditors of a U.S. issuer of a CDO, such as a trustee in bankruptcy, were to find that the issuer did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the CDO and, after giving effect to such indebtedness, the issuer: (i) was insolvent; (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital; or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they matured, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of the issuer or to recover amounts previously paid by the issuer in satisfaction of such indebtedness. The measure of insolvency for this purpose varies. Generally, an issuer would be considered insolvent at a particular time if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether the issuer was insolvent after giving effect to the incurrence of the indebtedness constituting the CDO or that, regardless of the method of valuation, a court would not determine that the issuer was insolvent upon giving effect to such incurrence. In addition, in the event of the insolvency of an issuer of a CDO, payments made on such CDO could be subject to avoidance as a preference if made within a certain period of time (which may be as long as one year) before insolvency. In general, if payments on a CDO are voidable, whether as fraudulent conveyances or preferences, such payments can be recaptured.

**Risks Associated with Commercial Mortgage Loans.** Certain Clients invest in commercial mortgage loans. The value of such Clients' commercial mortgage loans will be influenced by the rate of delinquencies and defaults experienced on the commercial mortgage loans and by the severity of loss incurred as a result of such defaults. The factors influencing delinquencies, defaults and loss severity include (i) economic and real estate market conditions by industry sectors (*e.g.*, multi-family, retail, office, etc.); (ii) the terms and structure of the mortgage loans; and (iii) any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan.

Commercial mortgage loans are generally viewed as exposing a lender to a greater risk of loss through delinquency and foreclosure than lending on the security of single-family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (*i.e.*, the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses, and comply with applicable zoning regulations and laws) rather than upon the existence of independent income or assets of the borrower. Many commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.

Commercial mortgage loans generally do not fully amortize, which can necessitate a sale of the property or refinancing of the remaining "balloon" amount at or prior to maturity of the mortgage loan. Accordingly, investors in commercial mortgage loans and commercial mortgage-backed securities ("CMBS") bear the risk that the borrower will be unable to refinance or otherwise repay the mortgage at maturity, thereby increasing the likelihood of a default on the borrower's obligation.

Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially declining property values. In certain circumstances, the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

Certain Clients may invest in small balance commercial ("SBC") loans. SBC loans are generally viewed as having the same risks as commercial mortgage loans.

**Risks Associated with CMBS.** Certain Clients invest in CMBS and other MBS, including subordinated tranches of such securities. The value of CMBS will be influenced by factors affecting the value of the underlying real estate portfolio, and by the terms and payment histories of such CMBS.

CMBS are a type of MBS secured by mortgage loans on commercial property. 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 is payable at maturity. Thus, repayment of the loan principal often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default. Most commercial mortgage loans underlying MBS are effectively non-recourse 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 MBS are likely to be adversely affected.

Some or all of the CMBS contemplated to be acquired by a Client may not be rated, or may be rated lower than investment-grade securities, by one or more nationally recognized

statistical rating organizations. Lower-rated or unrated CMBS, so-called “B-pieces,” in which a Client may invest have speculative characteristics and can involve substantial financial risks as a result. The prices of lower credit quality securities have been found to be less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic or real estate market conditions or individual issuer concerns. Securities rated lower than “B” by rating organizations may be regarded as having extremely poor prospects of attaining any real investment standing and may be in default. Existing credit support and the owner’s equity in the property may be insufficient to protect a Client from loss.

A Client may acquire subordinated tranches of CMBS issuances. In general, subordinated tranches of CMBS are entitled to receive repayment of principal only after all principal payments have been made on more senior tranches and have subordinated rights as to receipt of interest distributions. Such subordinated tranches are subject to a greater risk of nonpayment than senior tranches of CMBS or CMBS backed by third-party credit enhancement. As an investor in subordinated CMBS, a Client will be first among debtholders to bear the risk of loss from delinquencies and defaults experienced on the collateral. In addition, an active secondary market for such subordinated securities is not as well developed as the market for other MBS. Accordingly, such subordinated CMBS may have limited marketability and there can be no assurance that a more efficient secondary market will develop.

The value of CMBS and other MBS in which a Client may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise the value of such securities will decline. In addition, to the extent that the mortgage loans which underlie specific MBS are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline. Typically, commercial mortgage loans are not prepayable or are subject to prepayment penalties or interest rate adjustments, while most residential mortgage loans may be prepaid at any time without penalty.

**Risks Associated with Residential Mortgage Loans.** Certain Clients invest in residential mortgage loans, including subprime mortgages. Subprime mortgage loans are generally made to borrowers with lower credit scores. Accordingly, such mortgage loans backing residential mortgage-backed securities are more sensitive to economic factors that could affect the ability of borrowers to pay their obligations under the mortgage loans backing these securities.

A factor that may result in higher delinquency rates is the increase in monthly payments on adjustable-rate mortgage loans (“ARMs”) and/or pay option ARMs, each of which present special default and prepayment risks. The primary attraction to borrowers of these ARM products was that initial monthly mortgage loan payments could be significantly lower than fixed-rate or level pay mortgage loans under which the borrower pays both principal and interest at an interest rate fixed for the life of the mortgage loan. As a result, during the time period when the ARMs were originated or modified, many borrowers were able to incur substantially greater mortgage debt using one of these adjustable payment mortgage loan

products than they would have been able to incur using a standard amortizing fixed rate mortgage loan. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their loans.

Certain residential mortgage loans may be structured with negative amortization features. Negative amortization arises when the mortgage payment in respect of a loan is smaller than the interest due on such loan. On any such mortgage loans, if the required minimum monthly payments are less than the interest accrued on the loan, the interest shortfall is added to the principal balance, causing the loan balance to increase rather than decrease over time. Because the related mortgagors may be required to make a larger single payment upon maturity, the default risk associated with such mortgage loans may be greater than that associated with fully amortizing mortgage loans.

When a Client purchases loans, its counterparty may make representations and warranties about such loans to a Client. The Client's residential mortgage loan purchase agreements may entitle a Client to seek indemnity or demand repurchase or substitution of the loans in the event a counterparty breaches a representation or warranty given to a Client. However, a Client cannot assure that its mortgage loan purchase agreements will contain appropriate representations and warranties, that it will be able to enforce its contractual right to repurchase or substitution, or that a counterparty will remain solvent or otherwise be able to honor its obligations under its mortgage loan purchase agreements. The Client's inability to obtain indemnity or require repurchase of a significant number of loans could harm a Client's business, financial condition, liquidity, results of operations and a Client's ability to make distributions to investors. Further, as the market for mortgage loan purchase agreements becomes more competitive, the representations and warranties about such loans to a Client may become more limited as the counterparties have increased leverage during the negotiations for purchase of such loans.

**Counterparty Risk Associated with Mortgage Loans.** Certain Clients may be subject to counterparty risk and may be unable to seek indemnity or require its counterparties to repurchase mortgage loans if they breach representations and warranties, which could cause a Client to suffer losses. When a Client purchases loans, its counterparty may make representations and warranties about such loans to such Client. A Client's residential mortgage loan purchase agreements may entitle such Client to seek indemnity or demand repurchase or substitution of the loans in the event a counterparty breaches a representation or warranty given to such Client. However, a Client cannot assure that its mortgage loan purchase agreements will contain appropriate representations and warranties, that it will be able to enforce its contractual right to repurchase or substitution, or that a counterparty will remain solvent or otherwise be able to honor its obligations under its mortgage loan purchase agreements. A Client's inability to obtain indemnity or require repurchase of a significant number of loans could harm such Client's business, financial condition, liquidity, results of

operations and ability to make distributions to its investors. Further, as the market for mortgage loan purchase agreements becomes more competitive, the representations and warranties about such loans to a Client may become more limited as the counterparties have increased leverage during the negotiations for purchase of such loans.

**Risks Associated with Loan Origination.** In connection with loans that a Client may originate (indirectly or through FirstKey Mortgage, as defined below, or otherwise) in connection with a Client's investment program, a Client may be subject to liability indirectly for potential violations of various lending laws and additional costs associated with state and federal licensing. Residential mortgage loan originators and servicers are required to comply with various federal, state and local laws and regulations, including anti-predatory lending laws and laws and regulations imposing certain restrictions and requirements on "high cost" loans. Licensing laws may also require disclosure of certain investor's names. Continued changes in legislation and licensing laws may also require technology updates and additional implementation costs for loan originators. Such legislative changes will likely continue for the foreseeable future and may increase a Client's subsidiaries' operating expenses related to its loan origination services.

Additionally, there is a risk that a Client may be required (through FirstKey Mortgage or otherwise) to indemnify or repurchase originated loans if such loans fail to meet certain criteria or characteristics. Many contracts with purchasers of whole loans contain provisions that require originators to indemnify or repurchase the related loans under certain circumstances. While specific contracts will vary, they may contain provisions that will require a Client's subsidiaries to repurchase loans if: (i) the subsidiaries' representations and warranties concerning loan quality and loan circumstances are inaccurate, including representations concerning the licensing of a mortgage broker; (ii) the subsidiary fails to secure adequate mortgage insurance within a certain period after closing; (iii) a mortgage insurance provider denies coverage; or (iv) the subsidiary fails to comply, at the individual loan level or otherwise, with regulatory requirements in the current dynamic regulatory environment. If a Client's subsidiaries are required to indemnify or repurchase loans that they originate and sell that result in losses that exceed its projections, this could adversely affect a Client's business operations and result in losses to a Client.

**Risks Associated with MSRs and Excess MSRs.** Certain Clients invest in MSRs. MSRs arise from contractual agreements between a Client and the investors (or their agents) in mortgage securities and mortgage loans. Excess MSRs are interests in MSRs, representing a portion of the fee paid to mortgage servicers. The fee that a mortgage servicer is entitled to receive for servicing a pool of mortgages generally exceeds the reasonable compensation that would be charged in an arm's-length transaction. For example, Fannie Mae and Freddie Mac generally require mortgage servicers to be paid a minimum servicing fee that significantly exceeds the amount a servicer would charge in an arm's length transaction. The portion of the fee in excess of what would be charged in an arm's length transaction is commonly referred to as the excess mortgage servicing fee. A Client may acquire MSRs from the sale of mortgage loans where such Client assumes the obligation to service the loan in connection with the sale transaction or a Client may purchase MSRs and excess MSRs. Any MSRs and excess MSRs that a Client acquires will be recorded at fair value on such Clients' balance

sheets. The determination of fair value of MSR and excess MSR will require the Advisers to make numerous estimates and assumptions. Such estimates and assumption include, without limitation, estimates of future cash flows associated with MSR based upon assumptions involving interest rates as well as the prepayment rates, delinquencies and foreclosure rates of the underlying serviced mortgage loans.

The ultimate realization of the value of MSR and excess MSR may be materially different than the fair values of such assets as may be reflected in a Client's balance sheets as of any particular date. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values of such assets, which could have a material adverse effect on a Client's business, financial condition, results of operations and cash flows. Accordingly, there may be material uncertainty about the fair value of any MSR or excess MSR a Client acquires.

**Interest-Only Mortgage Loans.** Certain Clients invest in interest-only mortgage loans. Interest-only mortgage loans permit the borrowers to make monthly payments of only accrued interest generally for an initial period following origination. After such interest-only period, the borrower's monthly payment will be recalculated to cover both interest and principal so that the mortgage loan will amortize fully prior to its final payment date. If the monthly payment increases, the related borrower may not be able to pay the increased amount and may default or may refinance the related mortgage loan to avoid the higher payment. Interest-only mortgage loans reduce the monthly payment required by borrowers during the interest-only period and consequently the monthly housing expense used to qualify borrowers. As a result, the interest-only mortgage loans may allow some borrowers to qualify for a mortgage loan who would not otherwise qualify for a fully amortizing mortgage loan or may allow them to qualify for a larger mortgage loan than otherwise would be the case.

**Higher Risk of Loss on Loans Secured by Non-Owner Occupied Properties.** Certain Clients invest in mortgage loans that are secured by properties held by borrowers for investment or as second homes, including improved and unimproved land. These mortgage loans may present a greater risk of loss, and the unimproved land may present a significantly greater risk of loss, if a borrower experiences financial difficulties, because these borrowers may be more likely to default on a mortgage loan secured by non-owner occupied property than a mortgage loan secured by a primary residence of a borrower.

**Lack of Information Regarding Underwriting Standards; Higher Expected Delinquencies in Payment.** Clients will acquire mortgage loans from various unaffiliated savings institutions, finance companies and other sellers. From time to time, neither the seller nor the depositor will have information available to it as to the underwriting standards that were applied in originating the mortgage loans, and such mortgage loans may have been originated with low standards. As a result, certain Clients investments may experience rates of delinquency and default that are higher than those experienced by mortgage loans that were underwritten in accordance with higher standards.

**Risks Associated with Investments in Whole Loans.** If a Client acquires whole loans, it may be required to purchase other types of mortgage assets as part of an available pool of

mortgage assets in order to acquire the desired whole loans. These other mortgage assets may include mortgage assets that subject a Client to additional risks. Acquisition of less desirable mortgage assets may impair a Client's performance and reduce the return on its investments.

**Risks Associated with Consumer Loans and Credit Card Receivables.** The U.S. federal and state governments extensively regulate the lenders, marketers and servicers involved in consumer finance. These regulations include bankruptcy, tax, usury, disclosure, credit reporting, identity theft, licensing, privacy, fraud and abuse and other laws aimed at protecting borrowers. These laws and regulations may apply to assignees, and violations may result in the imposition of criminal or civil penalties, exclusion from participating in education loan programs or defenses to the enforceability of student loans. For example, the U.S. Truth in Lending Act can create punitive damage liability for assignees and defenses to enforcement of student loans if errors were made in disclosures that must be made to borrowers. Certain state disclosure laws, such as those protecting co-signers, may also affect the enforceability of student loans.

A Client may invest in directly and indirectly (through instruments backed by) prime and subprime credit card receivables. The amount of principal collections and finance charge collections on such credit card receivables will depend on many factors, including the rate of repayment of credit card balances by cardholders, which may be earlier or later than expected, the periodic finance charge rates applicable to the accounts, the extent of credit card usage by cardholders, the creation of additional receivables in the accounts, and the rate of default by cardholders, which means that receivables may not be paid at all. Changes in payment patterns, finance charge rates and credit card usage result from a variety of economic, social and legal factors. Economic factors include the rate of inflation, unemployment levels, the availability and cost of credit (including mortgages) and real estate values. Social factors include consumer and business confidence levels and the public's attitude about incurring debt and the stigma of personal bankruptcy. During periods of economic recession, high unemployment, increased mortgage foreclosure rates and low consumer and business confidence levels, card usage generally declines and delinquency and loss rates generally increase, resulting in a decrease in the amount of finance charge and principal collections. These changes in card usage, delinquency and loss rates and the amount of finance charges and principal collections may have a material adverse effect on credit card asset-backed securities. Recently, concerns over the availability and cost of credit, and geopolitical issues have contributed to increased volatility and diminished expectations for the economy and the markets going forward. All of these factors, combined with volatile oil prices, volatile business and consumer confidence and high unemployment, may result in declines in card usage and adverse changes in payment patterns, causing increases in delinquencies and losses in the accounts designated to the applicable credit card ABS master trust. A credit card ABS trust also may issue additional series with terms that are different from the series of ABS held by a Client, without notice and without prior review or consent. Before a trust can issue a new series, each rating agency that has rated an outstanding series must confirm in writing that the issuance of the new series will not result in a reduction or withdrawal of its earlier rating. Nevertheless, the terms of a new series could affect the timing and amounts of payments on any other outstanding series. In addition, the owners of the ABS of any new series will have voting rights that will reduce the percentage interest

represented by an earlier series. Such voting rights may relate to the ability to approve waivers and give consents. The actions which may be affected include directing the appointment of a successor servicer following a servicer default, amending the pooling and servicing agreement and directing a reassignment of the entire portfolio of accounts. Finally, proposed legislation and government regulations pertaining to credit card receivables, which would regulate the maximum interest rate permitted and other charges, such as late fees, may have a significant negative impact on credit card portfolio income.

A Client may invest in directly and indirectly (through instruments backed by) unsecured consumer loans. Repayments on such loans may be affected by a variety of social and economic factors. Economic factors include interest rates, unemployment levels, gasoline prices, upward adjustments in monthly mortgage payments or other debt payments, the rate of inflation and consumer perceptions of economic conditions generally. Social factors include changes in consumer confidence levels and attitudes toward incurring debt and changing attitudes regarding the stigma of personal bankruptcy. Economic conditions may also be impacted by localized weather events and environmental disasters.

The proceeds of unsecured consumer loans may be used by borrowers for a variety of purposes. They are not secured by any property or other collateral of the related borrower or others, and they are not guaranteed or insured by the originator, seller, servicer, or any third party, or backed by any governmental authority in any way. The servicer and third-party collection agents will be limited in their ability to collect on the loans. In addition, no provision of any document will obligate any party to pursue any remedies directly against any borrower. Accordingly, collections on consumer loans will be entirely dependent on voluntary payments made by the borrowers and the collection efforts and activities of the servicer (or its successors or delegees).

Following the financial crisis that began in 2008, the U.S. experienced an extended period of economic weakness or recession. This period was marked by high unemployment, decreases in home value, increased mortgage and consumer loan delinquencies and a lack of available consumer credit that resulted in increased delinquencies, increased volatility in financial markets, general deleveraging of consumer balance sheets, and defaults and losses on consumer loans and receivables. The number of delinquencies and defaults on consumer receivables is significantly influenced by the employment status of obligors.

While the U.S. economy has recovered from the financial crisis, there can be no assurance that high levels of unemployment or underemployment will not recur or other factors relating to the uncertain economic climate will not result in increased delinquencies and defaults with respect to consumer receivables in the future, or materially impair the value of a Client's investments.

**Credit Scores May Not Accurately Predict the Performance of the Mortgage Loans.** The Advisers may rely on credit scores as part of their due diligence process. Credit scores are obtained by many lenders in connection with mortgage loan applications to help them assess a borrower's creditworthiness. Credit scores are generated by models developed by a third party that analyzed data on consumers in order to establish patterns that are believed to

be indicative of the borrower's probability of default over a two-year period. The credit score is based on a borrower's historical credit data, including, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit and bankruptcy experience. Credit scores range from approximately 250 to approximately 900, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. However, a credit score purports only to be a measurement of the relative degree of risk a borrower represents to a lender (*i.e.*, a borrower with a higher score is statistically expected to be less likely to default in payment than a borrower with a lower score). Lenders have varying ways of analyzing credit scores and, as a result, the analysis of credit scores across the industry is not consistent. In addition, it should be noted that credit scores were developed to indicate a level of default probability over a two-year period, which does not correspond to the life of a mortgage loan. Furthermore, credit scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general, and assess only the borrower's past credit history. Therefore, a credit score does not take into consideration the effect of mortgage loan characteristics (which may differ from consumer loan characteristics) on the probability of repayment by the borrower. There can be no assurance that the credit scores of the mortgagors will be an accurate predictor of the likelihood of repayment of the related mortgage loans.

**Risks Associated with Residential Mortgage-Backed Securities.** Certain Clients invest in residential mortgage-backed securities ("RMBS"). Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. Prepayments could reduce the yield received on the related issue of RMBS. RMBS are particularly susceptible to prepayment risks, as they generally do not contain prepayment penalties and a reduction in interest rates will increase the prepayments on the RMBS, resulting in a reduction in yield to maturity for holders of such securities.

Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. Certain mortgage loans may be of subprime credit quality (*i.e.*, do not meet the customary credit standards of Fannie Mae and Freddie Mac). Delinquencies and liquidation proceedings are more likely with subprime mortgage loans than with mortgage loans that satisfy customary credit standards. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

Residential mortgage loans in an issue of RMBS may be subject to various U.S. federal and state laws, public policies and principles of equity that protect consumers which, among other things, may regulate interest rates and other fees, require certain disclosures, require

licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. In addition, a number of legislative proposals have been introduced in the U.S. at the federal, state and municipal level that are designed to discourage predatory lending practices. Furthermore, the laws of non-U.S. jurisdictions may have different, and, in some cases, more onerous obligations. Violation of such laws, public policies and principles may limit the servicer's ability to collect all or part of the principal or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and administrative enforcement. Any such violation could also result in cash flow delays and losses on the related issue of RMBS.

It is not expected that RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

**Geographic Concentration of Mortgage Loans.** In connection with a Client's loan origination and real estate-related debt investments, a Client's portfolio investments may be concentrated in a specific state or region. Weak economic conditions in these locations or any other location (which may or may not affect real property values), which may affect the ability of borrowers to repay their debt obligations on time. Properties in certain jurisdictions may be more susceptible than properties located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, as well as floods, hurricanes, wildfires, mudslides and other natural disasters. Declines in the real estate market of a particular jurisdiction may reduce the values of properties located in that jurisdiction, which would result in an increase in loan-to-value ratios. Any increase in the market value of properties located in a particular jurisdiction would reduce the loan-to-value ratios of the mortgage loans and could, therefore, make alternative sources of financing available to the borrowers at lower interest rates, which could result in an increased rate of prepayment of the mortgage loans. Natural disasters, such as wildfires, severe storms and flooding affecting regions of the U.S. from time to time may result in prepayments of mortgage loans.

**Asset-Backed Securities and Mortgage-Backed Securities Generally.** The investment characteristics of ABS and MBS differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time. Further, default risks may be more pronounced in the case of MBS and ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans.

ABS are not secured by an interest in the related collateral. ABS use trusts and special purpose corporations to securitize various types of assets, primarily automobile and credit card receivables. Investments in ABS may be made either directly or indirectly, through CDOs, in these and other types of ABS that may be developed in the future.

ABS present certain risks that are not presented by MBS. Primarily, these financial instruments do not have the benefit of security interest in the collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of entities involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than certain other types of loans and is less likely to experience substantial prepayments. ABS are often backed by pools of a variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

**Leverage and Borrowing Risks.** A Client may have the power to borrow funds and may do so when deemed appropriate by the Adviser or an Affiliate, including to enhance such Client's returns and/or satisfy withdrawal requests that would otherwise result in the premature liquidation of investments. These Clients may borrow funds from brokers, banks and other lenders to finance such Clients' investment operations, which borrowings may be secured by assets of the Clients. Leverage may be obtained, directly or indirectly through one or more SPVs or other structures, through one or more lines of credit or credit facilities (including, without limitation, subscription facilities) secured by assets of a Client, which may include, without limitation, through the issuance of CLOs, or through such other means, forms or structures as may be determined by the Advisers from time to time, in their sole discretion. The activities and investments of such SPVs may be more restricted or limited than the activities of a Client as a whole due to limitations of the terms of such leverage and applicable regulatory restrictions. Additionally, a Client may borrow funds through a related borrower, when deemed appropriate by the Adviser, including to enhance a Client's returns. The use of such leverage can, in certain circumstances, maximize the losses to which the Clients' investment portfolios may be subject. Any event that adversely affects the value of an investment would be magnified to the extent that such asset or such Client is leveraged. The cumulative effect of the use of leverage by the Clients in a market that moves adversely to the Clients' investments could result in a substantial loss to the Clients, which would be greater than if the Clients were not leveraged.

Leverage may be achieved through, among other methods, direct borrowing, purchases of securities on margin and the use of options, futures, forward contracts, repurchase and

reverse repurchase agreements, swaps and other derivative instruments. The access to capital could be impaired by many factors, including market forces or regulatory changes. The Clients have unrestricted borrowing powers, except as set forth in such Client's private placement memorandum or as set forth in such Client's organizational documents, the subscription documents related to an investment in such Client and/or the investment management agreement with such Client. The use of margin and short-term borrowing creates several risks for the Clients. If the value of the Clients' securities were to fall below the margin level required by a prime broker, additional margin deposits would be required. If the Clients are unable to satisfy any margin call by a prime broker, then the prime broker could liquidate the Clients' position in some or all of the financial instruments in the Clients' accounts at the prime broker and could cause the Clients to incur significant losses. Furthermore, secured counterparties and lenders may have the right to sell, pledge, rehypothecate, assign, use or otherwise dispose of collateral posted by the Clients. This could increase exposure to the risk of a counterparty default since, under such circumstances, the Clients could be unable to recover the posted collateral promptly or could be unable to recover all of the posted collateral. The occurrence of defaults may trigger cross defaults under the Clients' agreements with other brokers, lenders, clearing firms or other counterparties, creating or increasing a material adverse effect on the performance of the Clients.

The purchase of options, futures, forward contracts, repurchase agreements, reverse repurchase agreements and equity swaps generally involves little or no margin deposit and, therefore, will provide substantial leverage opportunities for the Clients. Accordingly, relatively small price movements in these financial instruments may result in immediate and substantial losses to the Clients. Leverage will increase the exposure of the Clients to adverse economic factors such as rising interest rates, economic downturns or a deterioration in the condition of the Clients' investments or their corresponding markets. The use of such leverage can maximize the losses to which the Clients' investment portfolios may be subject. Any event that adversely affects the value of an investment would be magnified to the extent that asset or such Client is leveraged. The cumulative effect of the use of leverage by a Client in a market that moves adversely to such Client's investments certain Clients have the power to borrow funds and may do so when deemed appropriate by the Adviser or an Affiliate, including to enhance the Clients' returns and satisfy withdrawal requests that would otherwise result in the premature liquidation of investments. These Clients may borrow funds from brokers, banks and other lenders to finance its investment operations, which borrowings may be secured by assets of the Clients. The use of such leverage can, in certain circumstances, maximize the losses to which the Clients' investment portfolios may be subject. Any event that adversely affects the value of an investment would be magnified to the extent that asset or such Client is leveraged. The cumulative effect of the use of leverage by the Clients in a market that moves adversely to the Clients' investments could result in a substantial loss to the Clients, which would be greater than if the Clients were not leveraged. Leverage may be achieved through, among other methods, direct borrowing, purchases of securities on margin and the use of options, futures, forward contracts, repurchase and reverse repurchase agreements and swaps. Access to capital could be impaired by many factors, including market forces or regulatory changes. The Clients generally have unrestricted borrowing powers.

A Client's access to capital through leverage and borrowing could be impaired by market forces and regulatory changes, including as a result of the final credit risk retention rules recently adopted pursuant to the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") discussed below.

**Impact of Risk Retention Rules.** Clients' access to capital could be impaired by many factors, including market forces or regulatory changes. Among other things, the final risk retention rules promulgated under the Dodd-Frank Act require that, among other conditions, sponsors of asset-backed securities transactions (including, without limitation, securitizations of mortgage loans) or their majority-owned affiliates retain a minimum of five percent of the credit risk of the assets collateralizing such asset-backed securities (the "U.S. Retained Interests") for a minimum of five years from the date of the transaction, or, in the case of other asset-backed securities, a minimum of two years from the date of the transaction (the "Dodd-Frank RR Rules"). Similarly, the EU has adopted risk retention and disclosure rules, currently set forth in Article 6 and Article 7 of Regulation (EU) 2017/2402 (the "EU Securitization Regulation"), with respect to securitization activities in the European Union (the "EU RR Rules") and, following its withdrawal from the EU, the United Kingdom (the "UK") has adopted risk retention rules, currently set forth in Article 6 and Article 7 of Regulation (EU) 2017/2402 as it forms part of retained EU law, as defined in the European Union (Withdrawal) Act 2018 (as amended) (the "UK Securitization Regulation"), with respect to securitization activities in the United Kingdom (the "UK RR Rules" and, together with the EU RR Rules and the Dodd-Frank RR Rules, the "Risk Retention Rules"). The EU RR Rules require, among other conditions, that the originator or sponsor of any securitization retain on an ongoing basis a material net economic interest of not less than five percent of certain specified credit risk tranches (the "EU Retention Interests") in an entity of economic and operational substance for the life of the securitization and make available information required by Article 7 of the EU Securitization Regulation in accordance with the frequency and modalities provided for in that Article. Similarly, the UK RR Rules require, among other conditions, that the originator or sponsor of any securitization retain on an ongoing basis a material net economic interest of not less than five percent of certain specified credit risk tranches (the "UK Retention Interests" and collectively with the EU Retention Interests and the U.S. Retained Interests, the "Retention Interests") in an entity of economic and operational substance for the life of the securitization and make available information required by Article 7 of the UK Securitization Regulation in accordance with the frequency and modalities provided for in that Article. The Client has utilized certain suitable entities (each, a "Risk Retention Entity") to address various regulatory requirements imposed by the Risk Retention Rules (in each case where applicable) on its securitization activities, including, without limitation, the regulatory requirement that an entity of economic and operational substance serve as sponsor or originator for UK and European securitization activity.

Article 5 of the EU Securitization Regulation contemplates that any EU investors will diligence transparency disclosure reports from the applicable issuer. Similarly, Article 5 of the UK Securitization Regulation contemplates that any UK investors will diligence transparency disclosure reports from the applicable issuer. It is not clear what form such

disclosure reports should take and there can be no assurance that the investor reports do or will enable EU investors or UK investors to satisfy the requirements of Article 5 of the EU Securitization Regulation and Article 5 of the UK Securitization Regulation respectively.

Such Risk Retention Entities may, among other things, serve as the sponsor or originator for one or more securitization issuances in the U.S., UK and EU (with some transactions being qualified in both jurisdictions) and hold either directly or, in the case of compliance with the U.S. rules, through a majority-owned affiliate, such Retention Interests and, as a result, may hold the investments created by previous securitization activity collectively and/or hold the Retention Interests collectively. To the extent that any Risk Retention Entity holds more than one investment, a distinct class of interests is created in each Risk Retention Entity that corresponds to the underlying investment and, accordingly, the beneficial owners of such class are the Clients that have an interest in such underlying investment. Since a Risk Retention Entity may hold multiple investments, it is possible that the classes corresponding to such investments are owned (i) by the same Clients, but in different respective percentages, and/or (ii) by different Clients so that certain Clients may own some, but not all, of the classes and corresponding underlying investments. Because the law in most jurisdictions generally does not limit claims against a SPV to the distinct class of interests in such SPV to which such claims relate, to the extent that a liability is incurred by such Risk Retention Entity (whether or not with respect to a particular underlying investment and its corresponding class of interests), any related claim may be sought against such Risk Retention Entity as whole and such claim may extend to all assets held by such Risk Retention Entity including the Retention Interests, despite that such liability may have arisen in connection with a specific investment and/or transaction. As a result, each Client with an interest in such Risk Retention Entity could incur a loss greater than it would otherwise be exposed to or otherwise would incur had each such investment been held by a separate and distinct entity.

The Advisers generally seek to mitigate such risk in a number of ways, including, without limitation, by (i) requiring each Client with an interest in a particular investment held by any Risk Retention Entity to enter into a contribution and indemnification agreement to appropriately allocate any potential liability or loss related to a specific investment to the relevant Clients with an interest in such investment, (ii) seeking to ensure that the relevant Clients that have entered into such a contribution and indemnification agreement have sufficient assets and/or reserves to satisfy such losses and liabilities to the extent they exceed the value of the underlying investments which gave rise to such losses and liabilities, and (iii) when possible, structuring the investments held by a Risk Retention Entity in a manner such that a claim by a counterparty with respect to such investment is limited solely to the assets relating to such investment. If a potential loss and/or liability exceeds the assets and/or reserves corresponding to a particular investment held by any such Risk Retention Entity, the Advisers will seek to allocate such loss and/or liability equitably among the relevant Clients to the greatest extent possible.

Although the Advisers believe that the use of Risk Retention Entities address the regulatory requirements imposed by the Risk Retention Rules, there can be no assurance that such

disproportionate declines in value, losses or liabilities will not be incurred by any Client with an interest in any Risk Retention Entity.

The Adviser's Brochure cannot address or anticipate every possible current or future regulation that may affect the Clients or their businesses. Such regulations may have a significant impact on a Client, including, without limitation, restricting the types of investments a Client may make, preventing a Client from exercising its voting rights with regard to certain financial instruments, requiring a Client to disclose the identity of its investors or otherwise. The Advisers may, in its sole discretion, cause a Client to be subject to such regulations if it believes that an investment or business activity is in a Client's interest, even if such regulations may have a detrimental effect on one or more investor.

In addition, Articles 404-410 (inclusive) of EU Regulation 575/2013 ("Articles 404-410") apply to credit institutions (*i.e.*, banks) and investment firms established in a Member State of the European Economic Area ("EEA") and consolidated group affiliates thereof (including those that are based in the U.S.) (each an "Affected CRR Investor") that invest in or have an exposure to credit risk in securitizations. Articles 404-410 impose a severe capital charge on a securitization position acquired by an Affected CRR Investor unless, among other conditions, (a) the originator, sponsor or original lender for the securitization has explicitly disclosed to the Affected CRR Investor that it will retain, on an ongoing basis, a material net economic interest of not less than 5% in respect of certain specified credit risk tranches or asset exposures, and (b) the Affected CRR Investor is able to demonstrate that it has undertaken certain due diligence in respect of its securitization position and the underlying exposures and that procedures are established for such activities to be monitored on an ongoing basis. For purposes of the CRR, an Affected CRR Investor may be subject to the capital requirements as a result of activities of its overseas affiliates, including those that are based in the U.S.

Requirements similar to the retention requirement in Articles 404-410 apply to investments in securitizations by other types of EEA investors such as EEA insurance and reinsurance undertakings, investment firms and UCITS funds and by investment funds managed by EEA alternative investment fund managers though the details of such requirements remain unclear. In particular, the requirements applying to the EEA managers of alternative investment funds became effective on July 22, 2013. Though these requirements are similar to those applying under Articles 404-410, they are not identical. It is likely that such alternative investment fund managers will be required to undertake due diligence on underlying exposures in a securitization which may be more extensive than the due diligence required under Articles 404-410.

The Risk Retention Rules, any future changes thereto, and any other changes to the regulation or regulatory treatment of securitizations may adversely affect commercial loan markets and the borrowers who utilize them, such as certain Clients, and could significantly curtail the formation of CLOs. In Europe in particular, in response to increased political and regulatory scrutiny of the asset-backed securities industry, there are a raft of measures for increased regulation which are currently at various stages of implementation and which may have an adverse impact on the regulatory position for certain investors and/or on the

incentives for certain investors to hold or purchase asset-backed securities and may thereby affect the liquidity of such securities. In recent years, term debt securitizations, including CLOs, have provided a significant amount of capital for leveraged and syndicated commercial loans not issued directly by banks and other institutions and have been a significant source of leverage for certain Clients. If this source of capital were to be significantly diminished or no longer available, the potential substitute sources of capital may be available on less favorable terms and, thus, limit a Client's access to funding. While it is not possible to predict at this time the impact these rules may have on a Client's ability to borrow on attractive terms, these rules may limit the ability of a Client to incur leverage (including through the issuance of CLOs).

Article 7 of EU Regulation 575/2013 ("Article 7") contemplates that Affected CRR Investors will receive transparency disclosure reports from the applicable issuer. However, as at the date of the Adviser's Brochure, it is not clear what form the final regulatory technical standards and disclosure templates will take. Investors should note that the CLO issuers sponsored by the Adviser have not agreed to modify the form of the investor reports they currently prepare upon the relevant disclosure templates applying under the EU Securitisation Regulation, and there can be no assurance that the investor reports do or will satisfy the requirements of Article 7. Moreover, because these CLO issuers, the Risk Retention Entities and related parties are not established in the European Union, the Adviser does not expect to comply, or to be required to comply, with the disclosure requirements under Article 7.

Investors in each Client are required to independently assess and determine whether the information provided herein with respect to the Risk Retention Rules (including in respect of the structural features of any transaction) and otherwise included in any reports or documents provided or to be provided to investors (to the extent applicable) in relation to any transaction, and the timing of delivery of such reports or of transaction documents (to the extent applicable), is sufficient to comply with the Risk Retention Rules or any other regulatory requirement to which they may be subject. Notwithstanding anything in the Adviser's Brochure to the contrary, none of the Advisers, any Risk Retention Entity, any issuer of a CLO sponsored by the Advisers or any of their respective Affiliates or any other person makes any representation, warranty or guarantee that any such information is sufficient for such purposes or any other purpose and no such person shall have any liability to any prospective investor or any other person with respect to the insufficiency of such information or any failure of the transactions contemplated hereby to satisfy or otherwise comply with the requirements of the Risk Retention Rules, the implementing provisions in respect of the Risk Retention Rules in their relevant jurisdiction or any other applicable legal, regulatory or other requirements, other than as set out above. Investors in each Client which is subject to any of the Risk Retention Rules or any other regulatory requirement should consult with its own legal, accounting and other advisors and/or its national regulator to determine whether, and to what extent, such information is sufficient for such purposes and any other requirements of the Risk Retention Rules or similar requirements of which it is uncertain.

**Alternative Investment Fund Managers Directive.** Directive 2011/61/EU on alternative investment fund managers (as amended) (the “EU AIFMD”) regulates: (i) alternative investment fund managers (each, an “AIFM”) based in the European Economic Area (the “EEA”); (ii) the management of any alternative investment fund (“AIF”) established in the EEA (irrespective of where an AIF’s AIFM is based); and (iii) the marketing of any AIF, such as a Client, to professional investors in the EEA.

Following the UK’s withdrawal from the EU on January 31, 2020 and the end of the transition period on December 31, 2020, The Alternative Investment Fund Managers Regulations 2013 (as amended), Regulation (EU) No 231/2013 as it forms part of retained EU law as defined in the European Union (Withdrawal) Act 2018 (as amended), and the relevant provisions of the Financial Conduct Authority Handbook (together with the law of the UK or any part of it which implemented the EU AIFMD and its implementing measures, the “UK AIFMD”) regulates: (i) AIFMs based in the UK; (ii) the management of any AIF established in the UK (irrespective of where the AIF’s AIFM is based); and (iii) the marketing of any AIF, such as the Client, to professional investors in the UK.

If a Client (which may include, without limitation, another separate contemporaneous Client pursuing a similar strategy), is actively marketed in the EU and/or the UK, it is possible that such Client and its general partner and management affiliates may be required to take significant measures to comply with (i) national rules implementing the EU AIFMD in those countries of the EU where such Client is to be marketed and/or (ii) the UK AIFMD (as applicable).

Compliance with the requirements of the EU AIFMD and/or the UK AIFMD, and marketing rules in the EU and/or the UK (as applicable), may be costly to such Client (*e.g.*, if numerous registrations are required) and could require significant time and effort by a Client. In addition, compliance with the EU AIFMD and/or the UK AIFMD may require the applicable Client to comply with certain restrictions and/or meet certain conditions which may include, without limitation, provision of information to European and/or UK regulators (as applicable), the appointment of a depositary and disclosure obligations concerning the acquisition of major holdings and control of unlisted companies.

In particular, as a result of the EU AIFMD and the UK AIFMD, in-scope funds may be bound by restrictions where they take “control” (generally 30% or more of the equity or voting capital of listed companies or 50% of the voting capital of unlisted companies) and notification requirements where they take a major holding (10% or more) of an EU- or a UK-registered portfolio company (as applicable). The intention of the restrictions is to prevent an acquiring AIF from using the inherited capital and reserves of an EU or UK target company (as applicable) to fund the cost of the acquisition, or to provide short-term profits. Each of the EU AIFMD and the UK AIFMD, therefore, imposes restrictions on distributions, capital reductions, share redemptions or purchases of own shares by companies “controlled” by a fund during the first two years of such fund’s ownership. These restrictions may increase operational costs and restrict activities in respect of such holdings. These restrictions may also affect the allocation of investments between Clients.

If a Client becomes subject to the EU AIFMD and/or the UK AIFMD, it is possible that such restrictions and/or conditions may limit a Client's investments and discretion and adversely affect the business, operations and results of other Clients to the extent that other Clients are invested alongside such a Client, in certain EU and/or UK investments. Further, if another Client that is subject to the EU AIFMD and/or the UK AIFMD is invested alongside a Client in certain EU and/or UK investments (as applicable), it is possible that the resulting restrictions and/or conditions may also adversely affect the business, operations and results of such a Client.

Under the EU AIFMD and the UK AIFMD, certain conditions must be met to permit the marketing of the interests to any potential and existing investors in the EEA or the UK (as applicable). The ability of a Client to offer the interests in the EEA and/or the UK will depend on (i) the relevant EEA state permitting the marketing of non-EEA domiciled funds under the national private placement regimes implementing the EU AIFMD and/or (ii) the UK permitting the marketing of non-UK domiciled funds under the UK AIFMD regime (as applicable), and the ability of a Client and the Advisers to comply with such national private placement regimes, where available. Compliance with the requirements of such regimes may increase the costs of the administration of a Client significantly, including the costs of regulatory reporting services to the Client and custody and prime brokerage services provided to the Client.

To the extent a Client is registered for marketing in certain EEA countries and/or the UK, these restrictions may impact a Client's ability to structure any investments in EEA and/or UK portfolio companies (as applicable) efficiently or to exit an investment at an appropriate time and, as such, may adversely affect a Client's ability to carry out certain of its investment strategies and achieve its investment objectives.

**Systemic Risk.** Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearinghouses, banks, securities firms and exchanges, with which the Clients or their borrowers interact on a daily basis. A systemic failure could have material adverse consequences on the Clients, their borrowers, and on the markets for securities in which a Client seeks to invest.

**Investment in Secondary Private Fund Interests.** Certain Clients invest, generally in minority positions, in existing private funds. Investments in private funds whose interests are not quoted can involve a greater risk than investments in quoted companies. The ability of a minority investor in such funds to influence such funds' affairs or to protect such investor's position is generally limited. As a result, a Client may not be permitted to participate in the management and operations of such funds. Instead, the managers of such funds will have the sole authority to manage and operate such funds. The success of each investment will depend on the ability and success of the management of the funds, in addition to economic and market factors. Moreover, the marketability of interests in such funds is restricted. Managers of the funds in which a Client holds secondary interests generally will receive compensation based on the performance of their portfolios.

**Uninsured Losses.** The Advisers, on behalf of the Clients, may attempt to maintain insurance coverage against liability to third parties and property damage as is customary for similarly situated businesses. However, there can be no assurance that insurance will be available or sufficient to cover any such risks. Insurance against certain risks, such as environmental liabilities, pollution, earthquakes, floods, hurricanes, windstorms, biological agents, mold or damage by terrorism may be unavailable, available in amounts that are less than the full market value or replacement cost of underlying properties or subject to a large deductible. In addition, there can be no assurance the particular risks which are currently insurable will continue to be insurable on an economically affordable basis. Clients may be at risk in the event of an uninsured liability to third parties.

**Brexit.** On June 23, 2016, the UK held a referendum to decide on its membership in the EU. The resulting vote was to leave the EU. The UK withdrew from the EU as of midnight CET on January 31, 2020. Pursuant to the terms of an agreement between the UK and the EU on the UK's withdrawal from the EU, a transition period was agreed which extended the application of EU law, and provided for the UK's continuing access to the EU single market, until December 31, 2020.

On December 24, 2020, the UK and the EU announced their agreement on a Trade and Cooperation Agreement (the "TCA"). The TCA will be provisionally applied from January 1, 2021 and therefore a temporary period of "no deal" following the transition period will be avoided. The conclusion of the TCA provides a structure for EU-UK cooperation in the future. It does not necessarily create a permanent set of rules, but is a basis for an evolving relationship, with scope for increasing divergence or closer cooperation which may vary between different areas. The TCA mainly covers trade in goods and services, with provisions on intellectual property, energy, transparency, regulatory practices, public procurement and a level playing field. It also includes sections on aviation, digital trade, road transport, social security and visas, fisheries, and law enforcement and judicial cooperation on criminal matters. It is accompanied by a number of ancillary "Joint Declarations," including on financial services, tax, state aid and subsidies, transport and data protection. One such Joint Declaration sets out the intention of the EU and the UK to agree to a memorandum of understanding by March 2021 on cooperation on financial services to help preserve financial stability, market integrity and the protection of investors and consumers.

Until the terms stemming from the TCA (and Joint Declarations) are clearer, it is not possible to determine the full impact that the UK's departure from the EU and/or any related matters may have on the Client or its investments, including, in each case, the market value or the liquidity thereof in the secondary market, or on the other parties to the transaction documents.

**Novel Coronavirus Pandemic, Public Health Emergency and Global Economic Impacts.** As of the date of the Adviser's Brochure, there is an ongoing coronavirus ("COVID-19") crisis, which the World Health Organization declared a global pandemic on March 11, 2020. The outbreak of COVID-19 has caused a worldwide public health emergency, with a substantial number of hospitalizations and deaths, and has significantly adversely impacted

global commercial activity and contributed to both volatility and material declines in equity and debt markets. The global impact of COVID-19 is rapidly evolving, and many national, state and local governments have reacted by instituting mandatory or voluntary quarantines, travel prohibitions and restrictions, closures or reductions of offices, businesses, schools, retail stores, restaurants and other public venues and/or cancellations, suspensions and/or postponements of certain events and activities, including certain non-essential government and regulatory activities. Businesses are also implementing their own precautionary measures, such as voluntary closures, temporary or permanent reductions in work force, remote working arrangements and emergency contingency plans. Such measures, as well as the general uncertainty surrounding the dangers, duration and impact of COVID-19, are creating significant disruption to supply chains and economic activity, impacting consumer confidence and contributing to significant market losses, including by having particularly adverse impacts on transportation, hospitality, tourism, sports, entertainment and other industries dependent upon physical presence. Technological infrastructure has been strained and will likely continue to be strained for so long as mandatory or voluntary quarantines are instituted, which will change, and potentially disrupt, the operations of the Advisers.

As a result of the market conditions described above, the cost and availability of credit has been, and may continue to be, adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets and the strength of counterparties has led many lenders and institutional investors to reduce, and in some cases cease, lending to borrowers.

As COVID-19 spread, and continues to spread, potential additional adverse impacts, including a global, regional or other economic recession of indeterminate duration, are increasingly likely and difficult to assess. However, the effects of COVID-19 on economies and global financial markets likely will adversely impact the business and operations of the Clients and the Advisers. The extent of the impact of COVID-19 on the Clients' operational and financial performance will depend on many factors, including the duration and scope of the resulting public health emergency, the extent of any related restrictions implemented, the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence and levels of economic activity, and the extent of its disruption to important global, regional and local supply chains and economic markets, all of which are highly uncertain and cannot be predicted. COVID-19 may materially and adversely impact leverage availability and terms, the Adviser's ability to source, manage and divest investments and the Adviser's ability to achieve its investment objectives, all of which could result in significant losses to Clients and investors. Certain businesses and activities may be temporarily or permanently halted as a result of government or other quarantine measures, voluntary and precautionary restrictions on travel or meetings and other factors, including the potential adverse impact of COVID-19 on the health of key personnel. If the spread of COVID-19 is prolonged, it could adversely affect many economies and global financial markets, even after COVID-19 is contained.

COVID-19 may also adversely impact one or more investors' financial condition, which could result in capital call defaults by such investors as a result of their individual liquidity situations and irrespective of a Client's performance. Such investor defaults could also adversely affect Clients.

Within each of the asset categories in which Clients are expected to invest, COVID-19 has adversely affected, and may continue to affect, the financial strength of the individuals, counterparties and issuers with whom Clients are likely to transact. For example, COVID-19 has adversely affected many borrowers of loans or mortgages (and securities backed by such loans or mortgages or loans or mortgages secured by such collateral), which may lead to increased delinquencies in loan payments, defaults on loans and an overall decline in income from such investments. COVID-19 may result in individual borrowers becoming ill, losing their jobs or businesses or experiencing a reduction in wages, and could lead such borrowers to deprioritize payment obligations under current loan or mortgage agreements, all of which would likely have an adverse effect on Clients or its investments in this asset category. As a result of COVID-19, loan servicers are offering forbearance, deferrals and other relief to borrowers seeking relief due to the economic disruption caused by the pandemic, which will have the immediate effect of increased delinquencies and reduced cashflow on loan payments. As certain Clients invest a portion of its assets in global credit broadly, all of these activities, factors and circumstances may impair a Client's profitability and result in losses.

Any or all of the circumstances described above may lead to further volatility in or disruption of the markets in which a Client transacts at any time and adversely affect the value of a Client and its investments.

**Environmental Matters.** Ordinary operation or the occurrence of an accident with respect to a portfolio company or real property could cause major environmental damage, which may result in significant financial distress to such portfolio company or owner or operator of such real property, even if covered by insurance. In addition, persons who arrange for the disposal or treatment of hazardous materials may also be liable for the costs of removal or remediation of these materials at the disposal or treatment facility, whether or not that facility is or ever was owned or operated by those persons. Certain environmental laws and regulations may require that an owner or operator of an asset address prior environmental contamination, which could involve substantial cost and other liabilities. Such laws and regulations often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of environmental contamination and may impose joint and several liability (including amongst a Client and the applicable portfolio company) or liabilities or obligations that purport to extend to (and pierce any corporate veil that would otherwise protect) the ultimate beneficial owners of the owner or operator of the relevant property or operating company that stand to financially benefit from such property's or company's operations. A Client may therefore be exposed to substantial risk of loss from environmental claims arising in respect of its investments. Furthermore, changes in environmental laws or regulations or the environmental condition of an investment may create liabilities that did not exist at the time of its acquisition and that could not have been foreseen. Community and environmental groups may protest about the development or operation of portfolio company assets, which may induce government action to the detriment of a Client. New and more stringent environmental or health and safety laws, regulations and permit requirements, or stricter interpretations of current laws, regulations or requirements, could impose substantial additional costs on a portfolio company, or could otherwise place a portfolio company at a competitive disadvantage compared to other companies, and failure to comply with any such requirements could have an adverse effect on a portfolio company. Even in cases where a Client is indemnified by the seller with respect to an investment

against liabilities arising out of violations of environmental laws and regulations, there can be no assurance as to the financial viability of the seller to satisfy such indemnities or the ability of a Client to achieve enforcement of such indemnities.

**Environmental, Social and Governance Factors.** The Advisers generally consider Environmental, Social and Governance (“ESG”) factors when making investments and managing client assets, consistent with and subject to any applicable legal, regulatory, fiduciary or contractual duties. ESG factors, issues and considerations vary greatly based on numerous criteria, including, but not limited to, country, industry, investment strategy, and issuer-specific/investment-specific characteristics. Consideration of ESG factors may cause a Client not to make an investment that they would have made or to make a management decision with respect to an investment differently than they would have made in the absence of such ESG factors. Additionally, ESG factors are only some of the many factors the Advisers may consider in making an investment, and there is no guarantee that the Advisers will make investments that directly or indirectly create positive ESG impact or that consideration of ESG factors will enhance long-term value and financial returns for limited partners. Similarly, in evaluating an investment, the Advisers often depends upon information and data provided by the issuer or company or obtained via third-party reporting or advisors, which may be incomplete or inaccurate and could cause the Advisers to incorrectly assess the company’s ESG practices and/or related risks and opportunities. In addition, certain of the Advisers’ ESG programs, policies and procedures are not formally documented and may change over time.

ESG consideration and responsible investing practices as a whole are evolving rapidly and there are different frameworks, methodologies, and tracking tools being implemented by other asset managers. Therefore, the Advisers’ approach to ESG consideration may not align with the approach used by other asset managers or preferred by prospective investors or with future market trends. The Advisers do not intend to independently verify certain of the ESG information reported by the portfolio companies. Further, the Advisers may determine in their discretion that it is not feasible or practical to implement or complete certain of its ESG initiatives based on cost, timing or other considerations. To the extent the Advisers engage with portfolio companies on ESG-related practices and potential enhancements thereto, there is no guarantee that such engagements will improve the financial or ESG performance of the investment.

Finally, there is also growing regulatory interest, particularly in the U.S., UK and EEA (which may be looked to as models in growth markets), in improving transparency around how asset managers, among others, define, measure and disclose impact of ESG factors on the performance of any fund, account or client. The Advisers’ ESG considerations could become subject to additional regulation in the future, and the Advisers cannot guarantee that its current approach will meet future regulatory requirements.

**Systems Risks.** The Clients depends on the Advisers to develop and implement appropriate systems for the Clients’ activities. The Clients will rely extensively on computer programs and systems to evaluate certain securities based on real-time trading information, to monitor its portfolio and net capital, and to generate risk management and other reports that are

critical to oversight of the Clients' activities. In addition, certain of the Advisers' operations interface with or depend on systems operated by third parties, including market counterparties and other service providers, and a Client or the Advisers may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures or interruptions, including, but not limited to, those caused by worms, viruses and power failures. Any such defect or failure could have a material adverse effect on a Client. For example, such failures could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades, and cause inaccurate reports, which may affect the Client's ability to monitor its investment portfolio and its risks.

**Operational Risk.** The Clients depends on the Advisers to develop the appropriate systems and procedures to control operational risk. Operational risks arising from mistakes made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or other similar disruptions in a Client's operations may cause a Client to suffer financial loss, the disruption of its business, liability to clients or third parties, regulatory intervention or reputational damage. The Client relies heavily on the Advisers' financial, accounting and other data processing systems.

**Cybersecurity Risk.** As part of its business, the Adviser processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the Clients and personally identifiable information of the Clients. Similarly, service providers, especially administrators, may process, store and transmit such information. The Adviser has procedures and systems in place to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network-connected services provided by third parties to the Adviser may be susceptible to compromise, leading to a breach of the Adviser's network. The Adviser's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. Online services provided by the Adviser to the Clients may also be susceptible to compromise. Breach of the Adviser's information systems may cause information relating to the transactions of the Clients and personally identifiable information of the Clients to be lost or improperly accessed, used or disclosed.

Service providers are subject to the same electronic information security threats as the Adviser. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of the Clients and personally identifiable information of the Clients may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of the Adviser's or the Clients' proprietary information may cause the Adviser or the Clients to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or

reputational damage. Any of the foregoing events could have a material adverse effect on the Adviser and the Clients' investments therein.

**Global Privacy and Data Protection Regulation.** The global data privacy landscape continues to evolve. Fines and liability relating to data privacy and data breaches are becoming increasingly common and will likely become more significant over time as new laws take effect and regulators, and the competent data protection supervisory authorities in particular, increase their enforcement efforts. The EU General Data Protection Regulation 2016/679 ("GDPR") came into effect on May 25, 2018. GDPR was designed to provide greater protection to personal data of identified or identifiable natural persons in the EU by imposing extended obligations on firms involved in the processing of such data. GDPR significantly expands the territorial applicability of the EU data privacy laws. GDPR also strengthens the conditions for consent in regard to processing personal data, creates direct obligations and liability for firms processing such data, and imposes significantly increased penalties for non-compliance. Also, the Data Protection Law (as amended) of the Cayman Islands ("Cayman DPL") became effective on September 30, 2019. Under the Cayman DPL, Clients as data controllers have obligations with respect to the processing of personal data by Clients concerning its investors, and investors have data rights in this respect. Furthermore, new data privacy regulations have been and are being introduced in the U.S., such as the California Consumer Privacy Act which took effect on January 1, 2020. There are also ongoing discussions around a potential federal data privacy law. Changes to privacy laws in the U.S. and outside of the U.S. are expected to increase legal, financial and reputational risk for firms.

**Financing Among Clients.** Applicable tax and regulatory considerations may sometimes lead to certain investments being structured in a manner such that a Client (or an entity through which such Client makes an investment) obtains debt financing from (or enters into a similar transaction with) other Clients. In such cases, the equity interest of such Client is subordinate to such loans and, accordingly, there may be circumstances in which the loans made by the other Clients is repaid in full while such Client is not able to recoup its equity investment or earn an adequate return. These transactions, however, are generally structured so that the projected return to the equity investment of such Client, after taking into account such borrowings, if obtained, would exceed the return to the other Clients with respect to their loans. To the extent practicable in light of their duties to multiple Clients, Advisers and their affiliates will act in the best interests of the Clients in determining the amount of each such investment opportunity to structure as debt, the amount to structure as equity and the terms of any debt instruments.

The equity holders and debtholders of a particular investment may have conflicting interests during the term of such an investment, especially if the investment is underperforming. In such circumstances, the Advisers will seek to ensure that all procedures that are necessary and proper, in its discretion, are implemented so that the interests of each Client are protected and that all such transactions are fair and appropriate to, and in the best interests of, each of the parties thereto.

**Co-Investments with Third Parties.** A Client may co-invest with third parties through partnerships, joint ventures or other entities. Such investments may involve risks in connection with such third-party involvement and risks not present in direct investments, including the possibility that a third-party co-venturer may have financial difficulties resulting in a negative impact on such investment; may have economic or business interests or goals that are inconsistent with those of a Client; or may be in a position to take (or block) action in a manner contrary to a Client's investment objective. Furthermore, if such co-venturer or partner defaults on its funding obligations, it may be difficult for a Client to make up the shortfall from other sources. Such Clients may be required to make additional contributions to replace such shortfall, thereby reducing the diversification of their investments. Any default by such co-venturer or partner could have an adverse effect on a Client, its assets and the underlying investors in such Clients. In addition, a Client may be liable for the actions of its co-venturers or partners. While the Advisers will attempt to limit the liability of a Client through contractual arrangements and by reviewing the qualifications and previous experience of co-venturers or partners, it may not undertake private investigations with respect to prospective co-venturers or partners. A Client may enter into compensation arrangements with third parties relating to such investments, including incentive compensation arrangements. Though the Advisers consider the effect of such compensation on the expected returns, such compensation arrangements will reduce the returns to participants in the investments and create potential conflicts of interest between such parties and a Client.

**Risks Upon Disposition of Investments; Contingent Liabilities.** In connection with the disposition of an investment, a Client may be subject to various contingent liabilities. For example, should a Client own real estate as a consequence of default or foreclosure on the collateral securing the Client's loans, a Client may be required to make representations about the business, financial affairs and other aspects (such as environmental, property, tax, insurance and litigation) of such investment typical of those made in connection with the sale of a real estate investment or business. The Client may be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate, as well as to indemnify the purchasers, subsequent owners or occupants, and others for certain matters without regard to breaches of representations and warranties. The Client may also incur contingent liabilities in connection with the purchase of a revolving credit facility from a lender that has not yet been fully drawn. If the borrower subsequently draws down on the facility, a Client would be obligated to fund the amounts due. The Client may be required to make representations about the business and financial affairs of a portfolio investment, and to indemnify the purchasers of such portfolio investment if those representations ultimately prove to be inaccurate. These arrangements may result in the incurrence of contingent liabilities for which the Adviser may establish reserves or escrows.

**Necessity for Counterparty Trading Relationships; Counterparty Risk.** The Advisers establish, on behalf of the Clients, relationships to obtain financing, derivative intermediation and other services that permit such Client to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Advisers will be able to maintain or establish such relationships. An inability to establish or maintain such relationships would limit a Client's trading activities; could create losses; could preclude such Client from

engaging in certain transactions, financing, derivative intermediation and other services and could also prevent such Client from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and other services provided by any such relationships before the Advisers establish additional relationships could have a significant impact on a Client's business due to such Client's reliance on such counterparties. The size of a Client may affect a Client's ability to maintain or establish relationships with counterparties on similar terms as those that exist for the other Clients.

Some of the markets in which a Client may effect its transactions are "over-the-counter" or "inter-dealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes a Client to the risk that a counterparty will not settle a transaction due to a credit or liquidity problem, thus causing such Client to suffer a loss. In addition, in the case of a default, a Client could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Client has concentrated its transactions with a single counterparty or small group of counterparties on similar terms as those that exist for other Clients.

Furthermore, there is a risk that any of a Client's counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of a Client's counterparties were to become insolvent or the subject of insolvency proceedings in the U.S. (either under the U.S. Securities Investor Protection Act or the U.S. Bankruptcy Code) or elsewhere, there exists the risk that the recovery of such Client's securities and other assets from such Client's prime brokers or broker-dealers may be delayed or may be of a value that is less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, a Client may use counterparties located in jurisdictions outside the U.S. Such local counterparties are subject to the laws and regulations in non-U.S. jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to a Client's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on a Client and its assets.

A Client is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, a Client has a limited internal credit function which evaluates the creditworthiness of its counterparties. The ability of a Client to transact business with any one or more counterparties, the lack of complete evaluation of such counterparty's financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by a Client.

**Central Clearing.** In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives are underway to require certain derivatives to be cleared through central clearinghouses. In the U.S., clearing requirements have been

implemented as part of the Dodd-Frank Act. The CFTC imposed its first clearing mandate on December 13, 2012 affecting certain interest rate and credit default swaps. The CFTC and the SEC may introduce clearing requirements for additional classes of derivatives in the future. The European Market Infrastructure Regulation also requires OTC derivatives contracts meeting specific criteria to be cleared through central counterparties.

While such clearing requirements may be beneficial for the Clients in many respects (for instance, they may reduce the counterparty risk to the dealers to which the Clients would be exposed under non-cleared derivatives), the Clients could be exposed to new risks, such as the risk that an increasing percentage of derivatives will be required to be standardized and/or cleared through central clearinghouses, and, as a result, Clients may not be able to hedge risks or express an investment view as well as they would have been able to had they used customizable derivatives available in the OTC markets. Clients may have to split their derivatives portfolio between centrally cleared and OTC derivatives, which may result in operational inefficiencies and an inability to offset risk between centrally cleared and OTC positions, and which could lead to increased costs.

Another risk is that Clients may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the Clients' futures commission merchants ("FCMs") and the clearinghouse. Virtually all margin models utilized by the clearinghouses are dynamic, meaning that unlike traditional bilateral swap contracts, where the amount of initial margin posted on the contract is typically static throughout of the life of the contract, the amount of the initial margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses, and the fact that the margin models might be changed at any time, may subject Clients to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment, which could have a detrimental effect on the Clients. Clearinghouses also limit collateral that they will accept to cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require Clients to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to the Clients. In addition, clearinghouses may not allow Clients to portfolio-margin their positions, which may increase a Client's costs.

Although standardized clearing for derivatives is intended to reduce counterparty risk (for instance, it may reduce the counterparty risk to the dealers to which Clients would have been exposed under OTC derivatives), it does not eliminate risk. Derivatives clearing may also lead to concentration of counterparty risk, namely in the clearinghouse and Clients' FCM, subjecting the Clients to the risk that the assets of the FCM are insufficient to satisfy all of the FCM's payment obligations, leading to a payment default. The failure of a clearinghouse or FCM could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on FCMs during a financial crisis, which could lead FCMs to default and thus worsen the crisis.

**Bank or Broker-Dealer Insolvency or Bankruptcy.** While care is taken in selecting banks and broker-dealers that will maintain custody of certain of the assets of a Client, there is a residual risk that any of such banks or broker-dealers could become insolvent or file for

bankruptcy. Additionally, a large percentage of the Clients' assets are held by a limited number of banks and broker-dealers. While most securities and assets deposited with broker-dealers will be clearly identified as being assets of a Client, such Client will be an unsecured creditor with respect to cash balances held with banks and broker-dealers, and hence, such Client may be exposed to a credit risk with regard to such parties.

**Risk Arbitrage Trading by a Client Entails Significant Risks.** In addition to investing in distressed securities, a Client may invest in risk arbitrage transactions, which are inherently volatile. The short-term performance of a Client's investments therefore may fluctuate significantly.

The price offered for securities of a company in a tender offer, merger or other acquisition transaction will generally be at a significant premium above the market price of the securities prior to the offer. The announcement of such a transaction generally will cause the market price of the securities to begin rising. A Client may purchase such securities after the announcement of the transaction at a price that is higher than the pre-announcement market price, but that is lower than the price at which the Advisers expect the transaction to be consummated. If the proposed transaction is not consummated, the value of such securities purchased by such Client may decline significantly. It also is possible that the difference between the price paid by a Client for securities and the amount anticipated to be received upon consummation of the proposed transaction may be very small. If a proposed transaction in fact is not consummated or is delayed, the market price of the securities may decline sharply. In addition, where a Client has sold short the securities it anticipates receiving in an exchange offer or merger, such Client may be forced to cover its short position in the market at a higher price than its short sale, with a resulting loss. If a Client has sold short securities which are not the subject of a proposed exchange offer, merger or tender offer and the transaction is consummated, such Client also may be forced to cover its short position at a loss.

In certain proposed takeovers, a Client may determine that the price offered for the securities is likely to be increased, either by the original bidder or by a competing offeror. In such circumstances, such Client may purchase securities at a market price that is above the offer price, incurring the additional risk that the offer price will not be increased or that the offer will be withdrawn. If no transaction ultimately is consummated, it is likely that a substantial loss will occur.

The consummation of an acquisition, merger, tender offer or exchange offer can be prevented or delayed, or the terms changed, by a variety of factors, including (i) the opposition of the management or shareholders of the target company, which may result in litigation to enjoin the proposed transaction, (ii) the intervention of a governmental regulatory agency, (iii) efforts by the target company to pursue a defensive strategy, including a merger with, or a friendly tender offer by, a company other than the offeror, (iv) in the case of an acquisition or merger, the failure to obtain the necessary shareholder (and, in some cases, regulatory) approvals, (v) market conditions resulting in material changes in securities prices, (vi) compliance with any applicable securities laws or (vii) the failure of an acquirer to obtain the necessary financing to consummate the transaction.

In addition to engaging in securities arbitrage activity, a Client may invest and trade in the securities of companies that it believes are undervalued or that may become the target of a takeover. If the anticipated transaction in fact does not occur, or if the securities do not increase in value as anticipated, such Client may sell them at no gain or at a loss.

**Uncertain Exit Strategies.** Due to the illiquid nature of many of the positions which a Client is expected to acquire, as well as the uncertainties of the reorganization and active management process, the Advisers are unable to predict with confidence what the exit strategy will ultimately be for any given investment, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

**Contribution and Indemnity Agreements.** In connection with certain investments participated in by multiple Clients, one or more Clients may be required to execute agreements with a counterparty on behalf of each of such Client's participation in the transaction. In connection therewith, one or more Clients may be required to provide to third parties guarantees or indemnification rights or to assume certain liabilities associated with such investments (each, a "Liability"). In instances where fewer than all of the Clients participating in the investment agree to bear such a Liability vis-à-vis the third party, the Advisers will cause the other Clients participating in the investment to enter into contribution and indemnification agreements for the benefit of the Clients that have agreed to bear such Liability, in amounts equal to their respective *pro rata* shares of such Liability, based on their respective ownership of the related investment. Although the Clients entering into such contribution and indemnification agreements will have assets in an amount necessary to cover their share of the relevant Liability at the time of entering such contribution and indemnification agreements, such assets may depreciate in value and/or may not be sufficiently liquid to provide prompt contribution to the other Clients in the event that an assumed Liability is required to be paid to such third party. If one Client defaults on an obligation under a contribution and indemnification agreement, the other Clients participating in the investment would be responsible, on the *pro rata* basis described above, for the amount of the default.

**Life-Settlement Contracts.** Certain Clients invest in life settlement contracts and related investments. A return from an investment in a life settlement depends on: (i) the difference between the policy face amount and purchaser's cost basis (consisting of the acquisition cost and premiums paid to maintain the policy); (ii) the length of the holding period; and (iii) the demise of the insured. Life expectancies are generally estimated from standard medical and actuarial data based on the historical experiences of similarly situated persons. The data is based on averages involving mortality and morbidity statistics. The outcome of a single settlement may vary significantly from the statistical average. It is impossible to precisely predict any single insured's life expectancy. To mitigate the risk that an insured will outlive his or her predicted life expectancy, life settlements are priced to yield competitive returns even if the life expectancy prediction is exceeded. However, the amount and duration of ongoing premiums may be higher than initially expected and premiums may increase over

time, due to, among other things, the upward sloping cost of insurance or the decision of an insurance carrier to adjust pricing. Premiums on the underlying life insurance policies must continue to be paid in accordance with the terms of the applicable policy to maintain the life settlement contracts in full force and effect. The failure to make such payments would result in the termination of the underlying insurance policies, which would have an adverse effect on the value of a Client's investment in such life settlement contracts, including a total loss of investment therein. The ability to accurately predict life expectancies and price is affected by a number of factors and the Adviser may underestimate life expectancy due to a variety of factors. Underestimating average life expectancies or miscalculating reserve amounts for future premiums may result in Client losses and those losses could have an adverse effect on a Client and its operations. If average life expectancies are underestimated, transactions are priced too high or premiums unexpectedly increase, a Client will not realize expected returns.

Life settlement contracts also carry the risk of insolvency on the part of the insurance carrier, and if the carrier responsible for paying a Client's claims becomes insolvent, such Client may not recover any portion of any claim owed to such Client.

Life settlement contracts are relatively illiquid, and it may be difficult to identify a potential purchaser who will pay fair value. In addition, if a potential purchaser or an insurance carrier determines that the life insurance policies underlying the life settlement contracts are unenforceable, the value of the policy could be adversely affected, which could severely limit a Client's ability to sell investments in life settlement contracts or collect insurance proceeds upon the insured's demise and result in a complete loss of such Client's investment therein. An issuer of the insurance policy may pursue litigation challenging the enforceability of the policy it issued as an improper stranger-owned life insurance policy. If successful, the insurer could rescind the policy while still retaining the premiums paid to date.

**Investments in the Shipping Industry.** Certain Clients invest in assets, securities or other instruments in the shipping industry, which are subject to risks including, without limitation: (i) extensive and changing safety, environmental protection and other international, national and local governmental laws and regulations, compliance with which may require ship modifications and changes in operating procedure; (ii) international sanctions, embargoes, import and export restrictions, an international health crisis (*e.g.*, COVID-19) nationalizations and wars or terrorist attacks; (iii) acts of piracy on ocean-going vessels; (iv) severe weather and natural disasters, which may cause serious damage to vessels, any cargo and other equipment and loss of life or physical injury; (v) arrests of vessels by maritime claimants in order to enforce liens against the vessel for unsatisfied debts, claims or damages, or arrests related to violations of applicable laws, including without limitation, sanctions, that could cause delays or require such Client to pay large sums of money to have the arrest lifted, which could have a negative impact on such Client's returns; (vi) labor interruptions or unrest among crews working on the vessels directly or indirectly owned by such Client; (vii) delays in delivery of new-build vessels or delivery of new-build vessels with significant defects which could delay or lead to the termination of related charter agreements and also cause cost overruns or cancellation of the new-build contracts; (viii) increased operational and maintenance costs over the life of a shipping vessel; and (ix) drydocking costs for

periodic maintenance and repairs that are difficult to predict with certainty and can be substantial.

**Investments in the Energy Sector.** Certain Clients' investment programs include investments in the assets, securities and other instruments of energy and energy-related companies. Such securities and other instruments may be subject to risk due to a variety of factors, including (i) weather; (ii) international political and economic developments; (iii) fuel supply and demand; (iv) interest rates, currency exchange rates, investment and trading activities in commodities markets; (v) special risks of constructing and operating facilities, breakdowns in the facilities for the production, storage or transport of energy and energy-related products; (vi) acts of terrorism; (vii) changes in government regulation and (viii) sudden changes in fuel prices. The businesses in which such Client invests may be adversely affected by non-U.S. and U.S. federal, state and local laws and regulations including regulations governing energy production, distribution and sale, as well as environmental, health and safety, taxation, land access and other regulations. Present, as well as future, statutes and regulations could cause additional expenditures, restrictions and delays that could materially and adversely affect the prospects of such Client.

**Investments in Healthcare Companies.** Certain Clients invest in the assets, securities or other instruments of healthcare companies, which involves substantial risks, including, but not limited to, the following: (i) certain companies in which such Client may invest may have limited operating histories; (ii) rapidly changing technologies and the obsolescence of products; (iii) change in government policies; (iv) volatility in the U.S. and non-U.S. stock markets affecting the prices of healthcare company securities (v) a national or international health crisis (*e.g.*, COVID-19) and (vi) most pharmaceutical and biotechnology companies, and many other companies in the healthcare sector, are subject to extensive government regulation. In addition, obtaining governmental approval for new products from governmental agencies can be lengthy, expensive and uncertain.

**Investments in Retail Companies.** Certain Clients elect to invest in the assets, securities or other instruments of retail companies. The performance of these investments may rely on consumer spending. Many factors impact the level of consumer spending in the retail market, including (i) general business conditions; (ii) interest rates; (iii) the availability of consumer credit; (iv) taxation and (v) consumer confidence in future economic conditions. An economic downturn may adversely affect consumer spending, which could hurt sale and profitability of the companies underlying any such investment of such Client. Furthermore, consumer purchases of discretionary items tend to decline during recessionary periods, when disposable income is lower. Adverse trends in general economic conditions, including retail shopping patterns and consumer confidence, may affect the demand of retail company products and negatively impact the ability of these companies to generate revenue or attract additional financing for their business needs. Performance of retail companies are also subject to increased costs due to excess inventories if they misjudge the demand for their products.

**Risks Associated with Reliance on the Advisers.** The success of the Advisers' investing may, to a large degree, be dependent upon the Advisers' personnel, who may make some or

all of the investing decisions with respect to Clients' investments. Competition in the financial services industry for experienced and capable employees, such as the Advisers' personnel, is intense. The loss of the services of any of such personnel could adversely affect a Client's portfolio.

**ITEM 9**  
**DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a Client's (or investor's) or a prospective Client's (or prospective investor's) evaluation of the Adviser's advisory business or the integrity of the Adviser's management.

**ITEM 10**  
**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

**A. Broker-Dealer Registration Status.**

The Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

**B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Advisor Registration Status.**

The Adviser is not registered as, and does not have any application to register as, a futures commission merchant, CPO, Commodity Trading Advisor (“CTA”) or an associated person of the foregoing entities, but the CPO Managers have registered as CPOs with the CFTC and have become members of the NFA. Certain management persons of the Adviser are registered as principals and/or associated persons of the CPO Managers. Other Affiliates rely upon the exemption from registration provided pursuant to CFTC Rule 4.13(a)(3).

Certain of the Adviser’s management persons, Stephen Feinberg, Alex Benjamin, Frank Bruno, William Richter, Andrew Kandel, Jeffrey Lomasky, Mark Neporent and Joshua Weintraub are registered with the NFA as principals, but not associated persons, of certain of the CPO Managers. Seth Plattus, and Scott Stelzer, both management persons of the Adviser, are registered with the NFA as both a principal and an associated person of certain of the CPO Managers. Other personnel are also registered as associated persons of the CPO Managers.

Each of the CPO Managers is a member of the NFA and plans to avail itself of an exemption from certain heightened disclosure and recordkeeping requirements provided by CFTC Regulation 4.7. The CPO Managers’ activities as CPOs enable them to use commodity products as part of their investment strategies and do not conflict with their investment advisory business.

**C. Material Relationships or Arrangements with Industry Participants and Affiliated Advisers.**

For a complete list of Affiliates that serve as the general partner or managing member of a Private Fund, see Section 7.A. of Schedule D to the Adviser’s Form ADV Part 1.

One Affiliate, Cerberus Sub-Advisory I, LLC, serves as an inactive sub-adviser to one fund registered as an investment company with the SEC under the 1940 Act. Although separately registered as an investment adviser with the SEC, Cerberus Sub-Advisory I, LLC is effectively part of the single advisory business of the Adviser.

Another Affiliate, Cerberus Business Finance, LLC, a relying adviser (and together with other Affiliates including certain Clients involved in the Adviser’s direct lending business, (“CBF”)), was formed to, among other things, act as a loan asset agent on behalf of one or more of the Private Funds in connection with the issuance of CLOs. In March 2017, Cerberus

Business Finance, LLC was converted into a series limited liability company in order to serve as the sponsor of certain CLOs, and raise the necessary risk retention capital from qualified employees of the Advisers, in satisfaction of the requirements of the credit risk retention rules, promulgated as part of the Dodd-Frank Act, relevant to CLOs.

Several Affiliates currently serve as management companies to the Clients and provide certain administrative and managerial services to the Clients.

In addition to the above affiliated general partners, investment managers and management companies, the Adviser retains and provides compensation to the following affiliated advisers:

- Cerberus Japan K.K., a Tokyo-based affiliate;
- Cerberus Asia Pacific Advisors Limited, a Hong Kong-based affiliate;
- Cerberus Asia Pacific Advisors II Limited, a Hong Kong-based affiliate;
- Cerberus Beijing Advisors Limited, a Beijing-based affiliate;
- Cerberus Deutschland Beteiligungsberatung GmbH, a Frankfurt-based affiliate;
- Cerberus European Capital Advisors, LLP, a London-based affiliate which is registered with the U.K. Financial Conduct Authority;
- Cerberus Iberia Advisors, S.L., a Madrid-based affiliate;
- Cerberus Global Investment Advisors, LLC, an affiliate with offices in New York and Baarn, The Netherlands;
- Cerberus Frontier, an affiliate with offices in Ethiopia, Georgia, Mongolia and Singapore;
- Cerberus Brasil Consultoria De Negocios Ltda, a São Paulo-based affiliate;
- Cerberus Australia Advisors Pty Ltd, a Sydney-based affiliate;
- Cerberus Capital Services Private Limited, a Mumbai-based affiliate; and
- Cerberus Middle East Management Limited, a Dubai-based affiliate.

Certain affiliated Advisers provide advice on Asian, European, African, South American, Australian and other non-U.S. investment opportunities.

For the past 19 years, the Adviser has maintained offices in the Netherlands, which have been integral to the Adviser's non-U.S. investment platform. The Dutch offices in Amsterdam and Baarn currently have 52 employees, which includes resident Dutch directors (the "Dutch Directors") who make investment and disposition decisions in conjunction with

the Adviser's New York office with respect to a significant portion of the Clients' non-U.S. investments.

The Dutch Directors generally receive the same information provided to the Adviser's investment committee in New York, and their approval is required for acquisitions, dispositions and restructuring transactions for a significant portion of the Clients' non-U.S. investments. The Dutch Directors regularly conduct meetings and review background materials on potential investments, including descriptions of potential transactions and draft transaction documents. The Dutch Directors also approve annual business plans, significant contracts and financing and refinancing transactions relating to such non-U.S. investments. Further, the Dutch Directors regularly consult with the Adviser's advisory offices on the performance of and ongoing strategy with respect to a significant portion of the Clients' non-U.S. investments. In addition, with respect to certain European trades or investments, the approval of the relevant Dutch Directors is generally required.

To the extent that Clients originate or acquire non-U.S. investments, they may be structured through investment vehicles established in the Netherlands (the "Dutch Companies") and in certain other foreign jurisdictions, and it is expected that the Netherlands will be involved in the ownership of future investments, for legal, regulatory and tax reasons.

The costs and expenses of the Dutch Directors and the Dutch Companies generally are borne by the Clients. The expenses related to the Dutch Companies (the "Dutch Company Expenses") that are borne by the Clients, include all expenses associated with the formation, organization, structure, administration, operation, accounting and reporting with respect to the Dutch Companies and their investments, and include, among other things, the costs of all of the Advisers' employees working in the Netherlands who devote their time to the formation, organization, structure, administration, operation, accounting and reporting of the Dutch Companies and their investments including, for the avoidance of any doubt, and without limitation (i) associated personnel costs such as salaries, benefits, payroll taxes, holiday and vacation time and all other associated compensation and personnel costs, (ii) associated overhead, including, without limitation, all occupancy costs such as rent, utilities, HVAC, water, cleaning and all other occupancy and administrative expenses incurred in connection with the services provided by the Dutch Company personnel, and (iii) all out of pocket costs incurred by the Dutch Companies or Dutch offices in connection with the provision of such services by the Dutch Company personnel).

The legal, regulatory and tax landscape is changing quickly in Europe and throughout the world, and it is likely that one or more additional offices in non-U.S. jurisdictions will be established for similar purposes as the Dutch Companies or other legal, tax or regulatory purposes and similar personnel will be retained in other jurisdictions (collectively, "Additional Non-U.S. Offices") for the benefit of the Clients. For example, as a result of recent changes to applicable regulations in Ireland, the Advisers recently organized and commenced managing certain Irish NPLs through an Irish company with substance and operations in Ireland. In addition to an Additional Non-U.S. Office in Ireland, the Advisers currently anticipate that other Additional Non-U.S. Offices may be established in Luxembourg and other international locations in order to respond to similar or other changes in law and policy. The Additional Non-U.S. Offices are expected to provide functions that

are similar to those currently provided at the Dutch office by the Dutch Directors. The costs and expenses of any Additional Non-U.S. Office and its personnel (“Additional Non-U.S. Office Expenses” and, together with the Dutch Company Expenses, the “Dutch and Other Expenses”) would also be borne by the Clients similar to and consistent with the foregoing treatment of Dutch Company Expenses with respect to the Dutch offices and will not offset the management fee.

In November 2018, the Adviser acquired SGI Frontier Capital, a private equity firm focused on frontier markets in Asia and Africa, which now operates as Cerberus Frontier. Cerberus Frontier, headquartered in Singapore, has five additional locations and a team of over twenty dedicated professionals with a track record of direct investment in frontier markets, including Ethiopia, Georgia and Mongolia. Based on a decade of investing in frontier markets, the Cerberus Frontier team has completed more than thirty transactions and currently manages a diversified portfolio of investments in a variety of sectors, including consumer goods, clean energy, real estate, healthcare and building materials. Cerberus Frontier also works closely with the Adviser’s investment and operating platforms, including Cerberus Operations, to evaluate opportunities and bring industry knowledge and operating resources to investments. The Adviser’s proprietary operating capabilities provide the Cerberus Frontier team with the ability to enhance a company’s strategy and operations and drive significant growth and value creation.

With respect to U.S. investment opportunities, the Adviser retains the following affiliated Advisers: (i) Cerberus California, LLC, an affiliate with offices in Los Angeles and San Francisco; and (ii) Cerberus Capital Chicago LLC, a Chicago-based affiliate.

For a complete list of all related advisers of the Adviser, see Section 7.A. of Schedule D to the Advisers’ Form ADV Part 1.

### **Cerberus Operations and Advisory Companies**

The Adviser has established (i) Cerberus Operations and Advisory Company, LLC, a New York- and Chicago-based affiliate (“Cerberus U.S. Operations”), (ii) Cerberus Asia Operations and Advisory Limited, a Hong Kong-based affiliate (“Cerberus Asia Operations”), (iii) Cerberus Operations and Advisory Company UK Limited, a London-based affiliate (“Cerberus U.K. Operations”), (iv) Cerberus Operations & Advisory Company Australia Pty Ltd (“Cerberus Australia Operations”) and (v) Cerberus Operations and Advisory Company Deutschland GmbH (“Cerberus D.E. Operations,” a Frankfurt-based affiliate, and, together with Cerberus U.S. Operations, Cerberus Asia Operations, Cerberus U.K. Operations and Cerberus Australia Operations, “Cerberus Operations”) to employ a team of operating advisors for the purpose of providing services to the Clients as well as their portfolio companies.

Though the number of Cerberus Operations operating executives fluctuates from time to time, Cerberus Operations currently includes approximately 100 operating executives directly as employees of Cerberus Operations or through an operating executive’s employment at a portfolio company, and other personnel to (i) support the Advisers’ investment teams with respect to, among other things, due diligence (including, without

limitation, evaluating prospective investments, pre-qualification of transactions (including participating in meetings with target companies), industry networking, and market evaluation) with respect to proposed investments and/or transactions and (ii) support the Clients' portfolio investments with respect to all aspects of their operations. The Clients and/or their portfolio investments reimburse Cerberus Operations (or any other Affiliate) for the cost of providing such services as described below, and such amounts will not offset any management fee payable by a Client. The entities comprising Cerberus Operations are not intended to operate as profit centers, but instead are operated substantially as pass-through companies on an at-cost or near-cost basis, or where minimum profits are required by tax laws or the laws or regulations of particular jurisdictions, are operated with the intention of generating solely such minimum profits. For the avoidance of any doubt, the cost of providing the services attributable to Cerberus Operations team members include, without limitation (i) associated personnel costs such as salaries, benefits, payroll taxes, holiday and vacation time and all other associated compensation and personnel costs, (ii) associated overhead, including, without limitation, all occupancy costs such as rent, utilities, HVAC, water, cleaning and all other occupancy and administrative expenses incurred in connection with the services provided by Cerberus Operations, (iii) the cost of accounting, software and other systems (including Thomson Reuters Elite 3E) used to record and allocate the time and expenses associated with such services provided by Cerberus Operations, and (iv) all out of pocket costs incurred by Cerberus Operations in connection with the provision of such services by Cerberus Operations team members (all of the foregoing, collectively, the "COAC Expenses").

To the extent that a team member of Cerberus Operations is (i) primarily involved in due diligence for a proposed investment or transaction, (ii) actively working at or with one or more of the Clients' portfolio companies as an operating executive or consultant, (iii) providing material assistance to the management of one or more of the portfolio companies or (iv) providing material assistance to the Clients in connection with the surveillance and monitoring of one or more investments, the COAC Expenses associated with such person are generally borne by the Clients invested in the relevant investment or transaction (or, in the case of an investment that is not consummated, by the Clients that would have been allocated the proposed investment or transaction, where applicable) or directly by the relevant portfolio company. To the extent that a Cerberus Operations team member performs both services payable by the Clients (and/or one or more portfolio companies) and services payable by the Advisers, the COAC Expenses associated with such person will be allocated among the Clients (and/or the relevant portfolio companies) and the Advisers in proportion to the percentage of time spent by the Cerberus Operations team member with respect to such services.

From time to time, certain Cerberus Operations personnel that are actively working at or with one or more of the Clients' portfolio companies as an operating executive or consultant may participate in such portfolio companies' management equity programs, if any.

Certain employees of the Adviser and members of the Cerberus Operations team serve as directors and/or officers of portfolio companies of one or more Clients. Accordingly, such employees and members may have a conflict where their fiduciary duty to the portfolio company conflicts with their fiduciary duty to one or more Clients. In such circumstances,

any such employee or member will act in accordance with his or her fiduciary duty to the portfolio company rather than any fiduciary duty such person may have to one or more Clients.

In addition, certain directors, officers or employees of portfolio companies (i) are Co-Investors with a Client, (ii) have affiliations with third parties who provide professional or other services to a Client's other portfolio companies, that Client, portfolio companies of other Clients or other Clients or (iii) have other business relationships or affiliations with the Advisers. In instances where the Advisers, on behalf of the Clients, appoint or retain (or influence the appointment or retention of) such directors, officers or employees, the Advisers will make determinations with respect to the qualifications and appropriateness of such persons in their sole discretion.

### **Engagement of Third-Party Consultants and Service Providers**

The Advisers often retain a variety of third-parties to provide consulting, advisory, regulatory, legal, transaction, operational, tax, underwriting, investment banking, sourcing and a wide variety of other services to the Clients, including to then-current or prospective portfolio companies and/or other investments in which certain Clients invest or may invest (all such retained parties, the "Consultants"). Consultants often provide services in sourcing investment and transaction opportunities, facilitating and structuring transactions, performing due diligence, supporting ongoing operations, and providing such other services that may from time to time be requested by the Advisers, the Clients and/or their portfolio companies ("Consultant Services"). Consultant Services may be provided on a short-term or long-term basis.

All such Consultants will be engaged based on a variety of factors including the perceived quality of service, expertise, reputation and the ability to provide current and future services to the Clients and their portfolio companies and other investments. Such future services may from time to time benefit certain Clients, while not being of any value to others.

Consultants may be engaged by any Client or affiliated service provider (including, without limitation, Cerberus Operations, Cerberus Technology Solutions, and Cerberus Global Investment Advisors, LLC and/or any other advisers). The nature of the relationship with each Consultant and the time and devotion requirements (if any) of each Consultant likely will vary significantly. The retention of Consultants and the terms thereof generally are negotiated by the Adviser (or the relevant portfolio company) separately with each Consultant and may be memorialized in one or more formal written agreements with such Consultant, or may be informal, depending upon a variety of factors, including but not limited to the anticipated Consultant Services to be provided by each such Consultant.

All Consultants are engaged for the benefit of the applicable Client and/or their portfolio companies or other investments, and all compensation, fees, expenses and other remuneration paid to the Consultants are and at all times will be paid (or reimbursed to the Adviser) by the Clients and/or their portfolio companies or other investments for which the Consultant has been engaged. Such compensation, fees, expenses and other remuneration that Consultants have in the past received, and likely in the future will receive, include but are not limited to

retainers, cash consulting fees, performance or other bonuses, expense reimbursements (including reimbursements for travel and other costs in connection with their services), profits or equity interests in a portfolio company or other investment, options granted by a portfolio company or other investment, a share of proceeds upon the sale of a portfolio company or other investment and/or a variety of other types of cash and non-cash compensation (collectively, “Consultant Compensation”).

To the extent Consultants receive equity or profit interests (or similar interests) in a portfolio company or other investment, the costs, amounts and dilution resulting therefrom will be borne by the investors invested in such portfolio company or other investment, including the Clients. Certain Consultants are provided opportunities to invest in portfolio companies or other investments with respect to which they are engaged.

Consultant Compensation will not offset the management fees paid by the Clients.

Consultants generally do not work exclusively for the Clients (including their portfolio companies and/or other investments), although in certain cases and from time to time, work relating to the Adviser, or the Clients (including their portfolio companies and/or other investments) may comprise all or a majority of the working time of such Consultants (and for protective and commercial purposes, the applicable documentation may include exclusivity provisions in favor of the Clients (including their portfolio companies and/or other investments)). The Consultants may be subject to conflicts of interest resulting from a number of situations, including, but not limited to, conflicts resulting from affiliations with or engagements by entities unaffiliated with the Adviser and/or the Clients. The Adviser is not always aware of the conflicts that may exist in connection with the Consultants; however, whenever the Adviser is aware of such conflicts, it will use reasonable efforts to ensure that such conflicts are addressed in an appropriate manner to the extent practicable in its good faith discretion.

Certain existing and former employees of the Adviser, Cerberus Operations, Cerberus Technology Solutions and/or its other affiliated service providers have in the past, and may in the future, cease their employment with the Adviser and subsequently be engaged as a Consultant for a variety of reasons. To the extent any such former employee is subsequently engaged as a Consultant, the Consultant Compensation of such person with respect to such Consultant Services would be borne by the applicable Clients and/or portfolio companies or other investments and would not offset management fees. In addition, certain Consultants who may or may not have formerly been employees of the Adviser or its affiliated service providers may in the future become employees of the Adviser, Cerberus Operations, Cerberus Technology Solutions and/or other affiliated service providers, and the fact that such individuals become employees will not impact the application of the management fee offset provisions to any Consultant Compensation they received in connection with their Consultant Services prior to becoming an employee of the Adviser.

To the extent any conflicts arise between the interests of any Clients (and/or their portfolio companies or other investments) with respect to the retention and use of Consultants, the Adviser will use all reasonable efforts to resolve such conflicts reasonably, fairly and equitably.

## **Affiliated Service Providers**

Certain Clients engage Cerberus European Servicing, Ltd. (“Cerberus European Servicing”), a U.K.-based company owned by Affiliates with offices in London, Amsterdam, Dublin and Madrid, Lisbon and Frankfurt, to oversee and provide certain asset management and property management services, as well as loan and asset servicing and settlement activities and related loan administration services and due diligence services in respect of a Client’s European assets, and to provide the Affiliates with information to form assumptions for pricing transactions, insight for appropriate exit strategies and advice on extracting value from assets under management. In connection with a Client’s European real estate holdings, Cerberus European Servicing will also oversee and provide certain asset management and property management services, as well as loan and asset servicing and settlement activities and related loan administration services and due diligence services in respect of the Adviser’s European assets. The Adviser established Cerberus US Servicing, LLC (“Cerberus U.S. Servicing”), an affiliate in the U.S. and other regions, to provide similar services with respect to assets of certain Clients located in North America, Cerberus Global Asset Management & Servicing, Ltd. (“Cerberus Global Servicing”) to provide similar services with respect to assets of certain Clients located in Asia, South America and other regions, and Promentoria Servicing Ireland Ltd. (“Promentoria Servicing”) to provide similar services with respect to assets of certain Clients located in Ireland and other regions. The Adviser may open additional affiliated offices to provide such services in respect of the assets of certain Clients in the future (such affiliated offices, together with Cerberus European Servicing, Cerberus U.S. Servicing, Cerberus Global Servicing and Promentoria Servicing, “Cerberus Servicing”). Certain Cerberus Servicing entities are held by Cerberus Global Servicing Holdings, Ltd. Cerberus Servicing will oversee other third-party servicers, asset managers and property managers that will be servicing certain Clients’ North American and European assets, and other affiliated entities may provide such services and/or oversee such services with respect to assets located in other regions.

The Adviser has established Cerberus Technology Solutions, LLC and Cerberus Technology Solutions UK Limited (collectively “Cerberus Technology Solutions”), subsidiaries with expertise in technology, data and advanced analytics. Cerberus Technology Solutions has a team of professionals that provides technological consulting services to Clients, their portfolio companies and other third parties. Cerberus Technology Solutions focuses on driving efficiencies at such portfolio companies by applying technology solutions, realizing new sources of revenue and value creation, and accelerating technological transformation and differentiation.

It is anticipated that Cerberus Technology Solutions will provide valuable contributions through initiatives targeted at improving systems and generating value from data, with a focus on domains that include, but are not limited to, digital and e-commerce; cloud enablement and infrastructure optimization; pattern design, architecture, and engineering; agile development and application refactoring; data operations, including data as an asset and data monetization; advanced analytics, including artificial intelligence and machine learning; and cyber security. Cerberus Technology Solutions will also be engaged to provide sourcing and due diligence services in connection with certain investments made by Clients, as well as

to identify and staff key talent to build or transform technology departments of portfolio companies.

Certain Clients that existed prior to the date on which Cerberus Technology Solutions formally launched (Legacy Funds, as defined further below) bear Cerberus Technology Solutions' fees at rates generally consistent with the cost-based fee structure charged to such Legacy Funds in respect of Cerberus Operations. For other Clients, which bear Cerberus Technology Solutions' fees at market-based (Market-Based Funds, as defined further below), to the extent that a Client engages Cerberus Technology Solutions, arrangements between a Client, on the one hand, and Cerberus Technology Solutions, on the other hand, will contain terms at least as favorable to a Client as are generally obtainable on an arm's-length basis from unrelated third parties, and any arrangement will provide for compensation that is competitive with the compensation paid to third parties for comparable services which could reasonably be made available to a Client. Accordingly, Cerberus Technology Solutions expects to generate a profit from its business relationships with the Market-Based Funds and/or their portfolio companies (and third parties), and such profit may be material. Certain members of the Adviser's leadership team, the Adviser's Affiliates and together with members of the Cerberus Technology Solutions team, will be granted equity interests, profits interests, bonuses and/or other compensation with respect to Cerberus Technology Solutions, and such equity interests, profits interests, bonuses and/or other compensation may be material.

Subject to the limitations set forth in the governing documents of the Clients, the fees and expenses of members of the Cerberus Technology Solutions team that are employed by, and provide services to, Cerberus Technology Solutions in respect of the Clients and/or their investments will be borne by the Clients or their portfolio companies, and will not offset a management fee payable by a Client; provided, however, that the Advisers will offset the management fee in respect of certain CTS Profits (as defined below).

It is anticipated that, whenever a portfolio company, the issuer or borrower of a portfolio investment of a Client or other third party retains Cerberus Technology Solutions, Cerberus Technology Solutions may be provided with and may otherwise collect and analyze data and information about that portfolio company, issuer or borrower and/or other third party. Subject to any agreements with such portfolio company, issuer or borrower and/or other third party, Cerberus Technology Solutions may (i) use such data and information in providing services to the Clients, other portfolio companies, issuers or borrowers and/or other third parties and/or (ii) sell, license or otherwise provide such data and information to other portfolio companies, issuers, borrowers and/or other third parties; provided that in the case of portfolio companies, such activities do not adversely affect such portfolio companies and such issuers or borrowers of a portfolio investment. Cerberus Technology Solutions generates a profit through such use, sale, licensing or other provision of such data and information, including, but not limited to, through the creation and sale and/or licensing of products and/or services containing, or capitalizing on the use of, such data and information, and the Advisers may recommend or encourage that the Clients, and/or third parties with whom such portfolio companies conduct business, purchase and/or license such products and/or services, whether directly from Cerberus Technology Solutions or from unrelated third parties with whom Cerberus Technology Solutions conducts business and receives fees for the sale and/or

license of products and services. In the event that a Client purchases or licenses a product or service directly from Cerberus Technology Solutions or from a third party that has a business relationship with Cerberus Technology Solutions pursuant to which such third party pays a portion of the sales or licensing fees it receives (including from a Client) to Cerberus Technology Solutions, Cerberus Technology Solutions will receive such sales or licensing fees as additional compensation, whether directly from a Client or indirectly through payments made by a Client to such third parties.

In addition, the Adviser has retained Brasil Brokers Participações S.A., Haya Real Estate, S.L.U., Housell Inmo Online Services, S.L.U., Gescobro Collection Services, S.L.U., Capital Home Loans Limited, Landmark Mortgages Limited, Bluestone Group Pty Ltd, Divarian Propiedad, S.A. and Promontoria MACC Residencial, S.L. (each of which are portfolio companies of several of the Clients) and/or other servicers and similar companies, whether now existing or hereafter created, in Europe, Asia and other geographic regions that may be acquired or established in the future by the Clients to facilitate the investment platform (collectively, the “Portfolio Company Servicers”). To the extent the Clients retain any of the Portfolio Company Servicers, such company will provide local market knowledge and servicing, diligence, reporting brokerage, administration, asset management, property management, rental management, due diligence, back office (*e.g.*, accounting, legal and other similar services) and related services in respect of such Client’s assets and loan portfolios. Any arrangements between the Clients and each of the Cerberus Portfolio Company Servicers will contain terms at least as favorable to the Clients as are generally obtainable on an arm’s-length basis from unrelated third parties and any arrangement will provide for compensation to each of the Cerberus Portfolio Company Servicers that is competitive with the compensation paid to third parties for comparable services that could reasonably be made available to the Clients. Any fees paid to each of the Cerberus Portfolio Company Servicers in respect of services provided to the Clients will be borne by the Clients and will not offset a management fee payable by a Client. Certain Clients hold an interest in certain Cerberus Portfolio Company Servicers.

The Advisers have retained (i) FirstKey Mortgage, LLC (“FirstKey Mortgage”); (ii) FirstKey Homes, LLC (“FirstKey Homes”) and/or (iii) one or more other related entities, whether now existing or hereafter created, to provide a variety of services to the Clients with respect to their mortgage businesses and assets in the U.S. and outside of the U.S.

FirstKey Mortgage specifically, is a multi-faceted operating platform consisting of specialty finance businesses in the U.S. and non-U.S. residential mortgage, residential, chattel, commercial loans, home equity lines of credit (“HELOCs”) and other secured loans, consumer and credit card debt, student loans and/or other structured product industries and is owned by several of the Clients. FirstKey Mortgage is a licensed mortgage residential lender and servicer in multiple states in the U.S. and provides asset management services and servicing oversight for various residential and chattel mortgage loans, commercial loans, HELOCs, student loans and other consumer assets held by Clients and accounts managed by Affiliates. In February 2016, FirstKey Mortgage added a Global Structured Finance Group and expanded its role to serve as securitization sponsor and asset manager for U.S. securitization activities, and structuring agent and “co-sponsor” for non-U.S. securitization activities. FirstKey Mortgage may acquire servicing rights to Fannie Mae, Ginnie Mae and

Freddie Mac conforming loans and Federal Housing Administration-insured and U.S. Department of Veterans Affairs-guaranteed loans.

As part of its services, FirstKey Mortgage may provide sourcing, capital markets and transaction management services to the Clients to identify U.S. and non-U.S. mortgage-related, other commercial and residential, consumer and other structured assets and facilitate the acquisition and sale of such assets through (i) conducting due diligence with respect to the target assets that certain Clients are seeking to purchase or sell, (ii) negotiating the terms of purchase or sale with a Client's counterparties and (iii) closing the purchase or sale. FirstKey Mortgage may provide certain asset management and/or data analysis services in respect of a Client's U.S. and non-U.S. mortgage-related, other commercial and residential, consumer and structured products businesses and assets and oversees other third-party servicers that service such assets.

FirstKey Mortgage may sell certain Clients residential mortgage loans or other consumer products that FirstKey Mortgage originates or acquires through its investor mortgage loan conduit. In addition, FirstKey Mortgage may be retained to perform both U.S. and non-U.S. securitization activities with respect to a Client's mortgage-related, consumer and other structured product assets. One or more of FirstKey Mortgage's affiliates may also serve as a securitization conduit for the mortgage or consumer assets of one or more of the Clients, and FirstKey Mortgage serves as the "sponsor" (as defined in the Dodd-Frank Act) for U.S. securitizations of mortgage loans, consumer debt and other structured products. In connection therewith and in order to comply with the credit risk retention rules of the Dodd-Frank Act, FirstKey Mortgage, or a majority-owned affiliate thereof, holds a portion of the securities issued in the securitizations in accordance with the Dodd-Frank Act. FirstKey Mortgage also may act as a designated "co-sponsor" and structuring agent for non-U.S. securitizations. FirstKey Mortgage is wholly owned, through one or more intermediate entities, by several Private Funds.

Additionally, given the specialized knowledge and expertise of certain FirstKey Mortgage personnel, the Advisers will have the flexibility to utilize such personnel in a targeted capacity as the situation requires with respect to a Client's residential mortgage investments, structured assets and other investments. For example, and without limitation, FirstKey Mortgage personnel have specialized expertise in asset acquisitions, structured finance and securitization transactions and are expected to be utilized to provide legal support to the Clients as needed on various asset-related matters. In addition, certain specialized FirstKey Mortgage personnel may be engaged to develop systems, software programs and other technologies that aggregate, analyze or report certain material data points or metrics with respect to a portfolio of assets on behalf of certain Clients (all services being provided by such FirstKey Mortgage personnel in this paragraph being referred to collectively as, "Bespoke FKM Advisory Services").

In all instances, the Adviser will seek to ensure transactions are effected at the market prices and that the terms of any transactions and arrangements between the Clients, on the one hand, and FirstKey Mortgage (including, without limitation, Bespoke FKM Advisory Services) and FirstKey Homes, on the other, will contain terms at least as favorable to the Clients as are generally obtainable on an arm's-length basis from unrelated third parties and

will provide for compensation to FirstKey Mortgage and FirstKey Homes that is competitive with the compensation paid to third parties for comparable services which could reasonably be made available to the Clients. The fees paid to FirstKey Mortgage and FirstKey Homes, as applicable, in respect of services provided to the Clients and their mortgage-related assets, commercial assets, HELOCs, consumer and credit card debt, student loans, residential rental assets, structured products and other businesses are borne by the Clients and will not offset management fees.

FirstKey Homes is expected to provide a variety of property and asset management services, including, among others, leasing, rental collection, credit screening, quality control, property repairs and maintenance and construction and renovation oversight services, and acquisition services with respect to the Clients' residential rental assets (*i.e.*, single-family and multi-family residential properties). FirstKey Homes was created by the Adviser in 2015 and currently has approximately 640 employees and manages homes in 24 regional markets in the U.S. A special purpose vehicle owned by the SFR REIT (as defined in Item 11) has acquired an interest in FirstKey Homes, LLC from a separate, foreign-controlled REIT owned by another Client, through one or more intermediate entities, at fair market value. The Clients, to the extent they invest in the SFR REIT, will own an interest in FirstKey Homes and its subsidiaries.

The arrangement between a Client, on the one hand, and Cerberus Servicing, Cerberus Technology Services, a Portfolio Company Servicer, FirstKey Homes or FirstKey Mortgage, on the other, contains terms at least as favorable to a Client as are generally obtainable on an arm's-length basis from unrelated third parties and provides for compensation to Cerberus Servicing, such Portfolio Company Servicer, FirstKey Homes or FirstKey Mortgage, as applicable, that is competitive with the compensation paid to third parties for comparable services which could reasonably be made available to a Client. The fees paid to Cerberus Servicing, Cerberus Technology Services, a Portfolio Company Servicer, FirstKey Homes or FirstKey Mortgage, as applicable, in respect of services provided to a Client and its portfolio investments will be borne by a Client.

FirstKey Homes, FirstKey Mortgage and the Portfolio Company Servicers are owned by one or more of the Clients. Effective as of January 1, 2021, the ownership of FirstKey Mortgage was restructured among certain Clients *pro rata* based on such Clients' gross exposure (based on gross market value) to the U.S. mortgages, bonds and other assets with respect to which FirstKey Mortgage provides services (and receives fees). The Clients' ownership of FirstKey Mortgage will continue to be adjusted on an ongoing annual basis as of January 1 of each calendar year beginning in 2022 based on the above methodology. Additional information with regard to this restructuring is available in the applicable Clients' organizational documents. The fact that FirstKey Homes, FirstKey Mortgage and the Portfolio Company Servicers are owned by one or more of the Clients and provide services to one or more of the Clients that do not own FirstKey Homes, FirstKey Mortgage or one or more of the Portfolio Company Servicers, creates a variety of potential and actual conflict situations. Each such conflict situation is carefully evaluated by the Cerberus Compliance and Risk Management Committee to ensure that all necessary and proper procedures are implemented so that the transactions between FirstKey Homes, FirstKey Mortgage or one or more of the Portfolio Company Servicers, on the one hand, and one or more of the Clients,

on the other are fair and appropriate to, and in the best interests of, each of the parties thereto; however, there can be no assurances that similar services cannot be procured at a lower cost from other market participants.

The Adviser, the Clients and their portfolio companies may also engage in similar arrangements with other affiliated entities (whether now existing or hereafter created) in order to facilitate loan servicing, technology services, administration, management, asset and property management, due diligence and related businesses in one or more geographic areas, or for one or more other purposes or services, to the extent applicable, subject to the restrictions in the Clients' governing documents.

In addition, certain other Affiliates (whether now existing or hereafter created) are engaged by, or on behalf of, the investments of the Clients, as a consultant, agent or in a similar role and receive fees, or are reimbursed for such expenses, in connection with such services (*e.g.*, an affiliated servicer, broker-dealer, finance company, Cerberus Operations or Cerberus Technology Solutions). Except with respect to the COAC Expenses and the Dutch and Other Expenses, which are paid on an at-cost or near-cost basis (as described more fully herein), these affiliate engagements likely will be based on a variety of factors, including perceived quality of service, expertise and reputation, and will provide for compensation to such Affiliate that is competitive with the compensation paid to third parties for comparable services which could reasonably be made available to the Clients.

### **Allocation of Resources**

Allocation of Adviser resources, including the Adviser's personnel and employees and consultants of Cerberus Operations and similar resources, among Clients will be made in the sole discretion of the Adviser.

As discussed above, many members of the Cerberus Operations team work exclusively for the Adviser, but some members may not be exclusively engaged by the Adviser. Members of the Cerberus Operations team may be subject to conflicts of interest resulting from a number of situations, including conflicts resulting from affiliations with entities unaffiliated with the Adviser, familial relationships, multiple assignments within the Adviser and ownership of interests in portfolio companies and other issuers, including, potentially, borrowers.

Further, it is anticipated that Cerberus Technology Solutions, in the ordinary course of business, may provide products and/or services to third parties, and the resources devoted to such efforts may be material.

The Adviser is not always aware of conflicts arising in connection with members or employees of Cerberus Operations or Cerberus Technology Solutions, as well as consultants retained by these and other Affiliates. Whenever the Adviser becomes aware of conflicts arising in connection with members or employees of Cerberus Operations, it will use reasonable efforts to ensure that such conflicts are addressed in an appropriate manner to the extent practicable in its discretion.

In addition, as discussed above, third-party consultants and advisors generally do not work exclusively for the Adviser or Clients and may be subject to conflicts of interests resulting

from a number of situations, including conflicts resulting from affiliations with entities unaffiliated with the Adviser, familial relationships, multiple assignments within the Adviser and ownership of interests in portfolio companies and other issuers, including, potentially, borrowers. The Adviser is not always aware of conflicts arising in connection with such consultants and advisors. Whenever the Adviser is aware of such conflicts, however, it will use reasonable efforts to ensure that such conflicts are addressed in an appropriate manner to the extent reasonably practicable.

Furthermore, certain personnel of the Advisers devote a portion of their time and attention to their own outside investment activities and the outside investment activities of the Private Feinberg Entities, as well as to philanthropic, charitable, civic, educational, political and similar endeavors.

### **Additional Investment Rights Obtained in Connection with Clients' Investments and Benefits Resulting from Portfolio Company Information and/or Other Investments**

In certain circumstances, the Adviser seeks to obtain future investment rights (including co-investment rights, rights of first offer, rights of first refusal, participation rights or similar rights) in connection with investments made by the Clients to provide further investment opportunities. The Adviser generally intends to allocate these opportunities in accordance with the Investment Allocation Policy, as opposed to allocating such opportunities in proportion to the amount invested in the investment that generated such investment rights. Accordingly, an investment that one or more Clients make may produce future investment rights for a number of different Clients, including Clients that may not have participated in the original investment. A Client may participate in an investment that produces investment rights that do not benefit such Client (*e.g.*, if an investment opportunity is not appropriate for such Client) or that may not benefit such Client in proportion to the amount invested in the investment that provided such investment rights. Conversely, a Client may benefit from investment rights provided by investments made by the other Clients in which such Client does not participate.

From time to time, one or more of the Clients may acquire portfolio companies, make investments or otherwise enter into transactions that provide information, knowledge and insight to the Adviser that may benefit the Clients participating therein and may, in the future, provide certain benefits to other Clients that have not participated in the acquisition, investment or transaction. For example, certain Clients may acquire an operating business that provides the Adviser with industry, sector or other information, knowledge and/or insight that the Adviser may then use in connection with its future investment activities on behalf of the Clients, including on behalf of Clients that do not have any interest in the acquired operating business that is the source of such information.

### **Ancillary Fees; Management Fee Offsets**

The management fee payable by a Client generally will be reduced, but not below zero, dollar-for-dollar by such Client's *pro rata* share of (x) the net amount (or, if other Clients, Co-Investors and/or other third parties have invested or, in the case of a break-up fee, proposed to invest, in the relevant portfolio investment, such Client's *pro rata* share of the

amount, multiplied by a fraction (i) the numerator of which is the amount invested (or anticipated to be invested in the case of a break-up fee) in the relevant portfolio investment by such Client and (ii) the denominator of which is the aggregate of all amounts invested (or anticipated to be invested in the case of a break-up fee) in the portfolio investment by such Client, all other Clients, all Co-Investors and all other third parties), of transaction fees, break-up fees, commitment fees, underwriting fees, amendment fees, waiver fees, modification fees, monitoring or management fees, directors' fees, consulting fees, advisory fees, closing fees and similar fees, payments or compensation (whether in the form of cash, options, warrants, stock or otherwise) ("Transaction Fees"), if any, received and retained by the Advisers from any third parties or portfolio companies (other than any other Client or Co-Investors) in connection with portfolio investments (or anticipated portfolio investments in the case of a break-up fee) in which such Client participated (or would have participated in the case of a break-up fee) and (y) solely in the case of Market-Based Funds (as defined below, a Client's *pro rata* share of CTS Profits, which *pro rata* share will generally be determined based on the amount of fees paid directly or indirectly by the Advisers and other Market-Based Funds, Co-Investors (excluding Co-Investors invested through a Legacy Fund (as defined below)) and their portfolio investments to Cerberus Technology Solutions giving rise to such CTS Profits in the applicable year(s) to which such offset relates (such amounts under clauses (x)-(y), collectively, the "Fee Offset Amounts"); provided, however, that the Fee Offset Amounts attributable to CTS Profits pursuant to clause (y) will be calculated and applied on an annual, as opposed to quarterly, basis; provided, further, that there will be no reduction to a Client's management fees in respect of any of the following, which will not be deemed to be Fee Offset Amounts: (i) any management fees or other asset-based or commitment-based compensation, incentive or performance allocations or distributions or fees or other performance-based compensation, or Transaction Fees or similar fees, paid by or received in respect of any other Client, any Co-Investor and/or any other third party; (ii) any fees and expenses of the Advisers engaged to provide services by or on behalf of a Client as described or permitted elsewhere in the governing documents of a Client, including, without limitation, (a) the COAC Expenses, (b) the Dutch and Other Expenses and (c) the costs, fees and expenses of other affiliates (whether now existing or hereafter created), including, without limitation, affiliated service providers such as Cerberus Technology Solutions (other than CTS Profits), Cerberus Servicing, FirstKey Mortgage and FirstKey Homes that are engaged to provide services by or on behalf of the Advisers; or (iii) any fees or compensation paid to third parties, including, without limitation, third-party advisors, consultants, operating partners, asset managers and similar third parties.

"CTS Profits" means the 50% share (or such other share of Cerberus Technology Solutions owned by the Adviser from time to time) of any net profits generated by Cerberus Technology Solutions in respect of the Market-Based Funds, as more fully described in the CTS Letter. For purposes of calculating CTS Profits, the Adviser will separately calculate the financial performance of Cerberus Technology Solutions' businesses attributable to Market-Based Funds (and portfolio investments of such funds), other Clients that are Legacy Funds (and portfolio investments of such funds) and third-party clients that are not other Clients. Accordingly, the calculation of CTS Profits will exclude (i) revenue, costs, expenses, net loss and/or net profit of Cerberus Technology Solutions attributable to services provided by Cerberus Technology Solutions to third parties and to the Adviser, and (ii) revenue, costs, expenses, net loss

attributable to services provided by Cerberus Technology Solutions to the Legacy Funds, as more fully described in the CTS Letter.

“Market-Based Funds” includes the Clients, Co-Investors and any funds that bear Cerberus Technology Solutions’ fees at market-based rates.

“Legacy Funds” means certain Clients (excluding the Market-Based Funds) that existed prior to the date on which Cerberus Technology Solutions formally launched that do not bear Cerberus Technology Solutions’ fees at market rates like a Client, but, rather, bear Cerberus Technology Solutions’ fees at rates generally consistent with the cost-based fee structure charged to such Legacy Funds in respect of Cerberus Operations.

“CTS Letter” means the letter to investors in other Clients, dated May 22, 2019.

For the avoidance of doubt: (i) the Advisers will retain their share of any profits generated by Cerberus Technology Solutions from third parties; (ii) the Advisers will retain the value of their equity interests in Cerberus Technology Solutions in connection with any sale of all or part of Cerberus Technology Solutions or the sale, license or other disposition of any information or other assets owned by Cerberus Technology Solutions and (iii) Cerberus Technology Solutions personnel will retain profits relating to their ownership of Cerberus Technology Solutions.

Fee Offset Amounts received in any calendar quarter will reduce the management fees for the following period as set forth above. If the Fee Offset Amounts exceed the management fees payable for a given quarter, such excess amounts will be carried forward to one or more subsequent periods and applied to reduce the future payments of the management fee in such future periods until such excess amounts have been fully offset. Generally, Fee Offset Amounts will not be applied to reduce any previously paid management fee amounts, and if such fees are greater than the aggregate amount of future management fees that would otherwise be payable to the Advisers, the Advisers may receive more income than they otherwise would have received from Clients.

In addition, from time to time and in certain circumstances, one or more portfolio companies pay a management, monitoring and/or similar fee to the Advisers that is accelerated upon the occurrence of certain events (such as, for example, the sale of substantially all of the assets or securities of such portfolio company to a third party, the merger or consolidation of such portfolio company with or into a third party, the public offering of securities of such portfolio company and/or one or more similar transactions). As noted above, generally such fees (including accelerated fees) will reduce future management fees otherwise payable to the Advisers by the Clients. With respect to investments of the Clients in which there are Co-Investors, the portion of such fees, including any accelerated fees, that relate to the investments by such Co-Investors may be paid to such Co-Investors or retained by the Advisers (as agreed-upon compensation payable to the Advisers in respect of such Co-Investors’ investment) in such amounts and on such terms that generally are negotiated with and agreed to between the Advisers and such Co-Investors on a transaction-by-transaction basis. Any fees, including accelerated fees, received by the Adviser, its affiliates or their respective employees and attributable to any third-party investors in any portfolio company,

issuer or borrower will be retained by the Adviser, such affiliates or such employees, as applicable and will not reduce future management fees otherwise payable to the Adviser.

For purposes of calculating the Fee Offset Amount, any compensation received in a form other than cash will be deemed earned and paid, and will be valued in good faith by the Advisers, at one of the following dates, as set forth in the relevant Client's private placement memorandum or as set forth in such Client's organizational documents and/or as set forth in the investment management agreement with such Client: (i) the date of the disposition of such non-cash compensation, in which case the value of such non-cash fees will be equal to the net proceeds received by the Advisers in connection with such disposition; (ii) the date of the disposition of the underlying investment in connection with which such non-cash compensation was received; (iii) the date of dissolution of a Private Fund or termination of an account; or (iv) a specified anniversary date of the receipt of such non-cash compensation.

As noted above, management fees, incentive fees, incentive allocations and performance distributions received by the Advisers from Co-Investors, as well as any Transaction Fees or other fees in connection with such Co-Investors or their respective co-investments, are not shared by the Advisers with any of the Clients, will not be part of the Fee Offset Amounts and will not reduce any management fees, incentive fees, incentive allocations or performance distributions to be received by the Advisers from any of the Clients. As a result, the Fee Offset Amounts will be calculated solely based upon the respective economic interest (or, in the case of a break-up fee, anticipated economic interest) of the Clients in a relevant investment as a percentage of the amount invested (or, in the case of a break-up fee, anticipated to be invested) in such investment by such Clients, all other Clients and all Co-Investors in the aggregate. Accordingly, the Fee Offset Amounts with respect to a Client will be lower than they otherwise would be if the calculation of the Fee Offset Amounts did not include in the denominator thereof the investments made by Co-Investors and third-party investors.

### **Receipt of Other Benefits**

The Advisers and their personnel from time to time receive certain benefits and/or perquisites in connection with or resulting from their activities on behalf of Clients which are not shared with Clients, their investors and/or their portfolio companies and are not included in the Fee Offset Amounts (as defined below). These benefits and/or perquisites generally are *de minimis* in value and generally include, among other things, reward program points, reward program credits, miles program credits and other similar benefits generally included as part of airline, hotel and other similar loyalty, affinity or status programs. Any value associated with such reward program points, credits, miles and other similar items inure to the benefit of the Advisers and/or their personnel, and not to the benefit of any Clients, their investors and/or their portfolio companies, notwithstanding that the cost of the services which resulted in such points, credits, miles and/or other benefits may have been borne by the Clients and/or one or more of their portfolio companies. For the avoidance of doubt, the benefits and perquisites discussed in this paragraph are not Fee Offset Amounts that reduce management fees.

## **Management of Multiple Clients**

As indicated above, the Advisers manage a number of Clients, some of which have or are expected to have investment programs that are similar and/or overlap. The organizational documents and investment management agreements of Clients generally do not curtail the Advisers' ability to create successor funds to the Advisers' other existing platforms, as well as separate accounts or other investment funds or vehicles relating or complementary to the Advisers' other existing platforms or new investment strategies and platforms. In addition, the Advisers may in the future establish, sponsor and/or otherwise become affiliated with other pooled investment vehicles, companies, investors and accounts that have investment programs that are similar to and/or overlap with the investment programs of its current Clients or that may engage in the same or similar business as such current Clients using the same or similar investment and/or business strategies. For example, an Adviser could establish a fund that focuses on investing in a single industry or geographic region or of a certain investment type, such as European NPLs or MBS, which could invest side-by-side with an existing Client in deals in that industry or geographic region or of that investment type. The Adviser anticipates that new pooled investment vehicles (or additional classes or series of interests in its current Clients), single-investor funds and/or managed accounts, each with investment programs that are similar to and/or overlap with the investment programs of current Clients, will be created in the future. The investment allocations and performance results of all other Clients may differ from the performance results of a Client's as a result of, among other things, differing tax, regulatory, legal, leverage and other considerations.

Each of the Advisers will devote so much of its time, and the Advisers will allocate so much of the time and resources of the Cerberus Operations team members, to the affairs of each Client as in their judgment the conduct of each Client's business reasonably requires, and none of the Advisers will be obligated to do or perform any act or thing in connection with the business of any Client not expressly set forth in such Client's governing documents. Generally, the Advisers exercise investment responsibility on behalf of, or directly or indirectly purchase, sell, hold or otherwise deal with, any portfolio investment for the account of multiple Clients and multiple businesses. In addition, as described herein, Mr. Feinberg and other personnel of the Advisers devote time and effort to the investment and other activities of the Private Feinberg Entities.

No Client will and no investor will, solely by reason of being an investor in a Client, have any right to participate in any manner in any profits or income earned or derived by or accruing to the Advisers from the conduct of any business (including the business and investment activities of the Private Feinberg Entities and other personnel of the Advisers) other than the business of such Client or from any transaction in investments effected by the Advisers for any account other than that of such Client.

As a result of the foregoing, the Advisers and their personnel may have conflicts of interest in allocating their time and resources among Clients, in allocating investments among Clients and other entities, and in effecting transactions among Clients and other entities, including ones in which the Advisers or their personnel may have a financial interest. Accordingly, each of the Advisers will devote so much of their time and will allocate the time and

resources of their operations team to their Clients as in their judgment the conduct of each Client's account reasonably requires.

### **Additional Conflicts Relating to Investments by the Private Feinberg Entities and Other Cerberus Personnel**

Mr. Feinberg, (i) individually, (ii) on behalf of members of his family, and/or (iii) through or on behalf of trusts, partnerships, companies and other entities formed for the benefit of himself and members of his family, and/or other persons or entities, including, but not limited to, Tracker Capital Management, LLC, a separate and independent investment vehicle, (collectively, along with Mr. Feinberg, Mr. Feinberg's family, and such trusts, partnerships and other entities, the "Private Feinberg Entities") have in the past, and expect to continue to, make, hold and dispose of investments outside of, and separate and apart from, their interests in the Advisers and the Clients. These investments by the Private Feinberg Entities may include, without limitation, control and non-control equity and other investments in public and private companies. The investments made by the Private Feinberg Entities are investments that, at the time of investment, are opportunities that are determined by the Cerberus Compliance and Risk Management Committee and the Cerberus Securities Compliance Committee to be (a) not appropriate for investment by any Client (although such investments may have originally been considered for investment by one or more Clients and subsequently determined to be not appropriate for investment by such Clients) and (b) not in conflict with or contrary to the interests of any Client and the Advisers' duties and obligations to such Clients.

In making determinations about the investment activities of the Private Feinberg Entities, the Cerberus Compliance and Risk Management Committee and the Cerberus Securities Compliance Committee consider a wide variety of factors, including, without limitation, the investment strategies of the Clients, the return parameters of the Clients; the size, industry and other terms with respect to the proposed investments; risk factors and/or reputational considerations applicable to the Clients and the Advisers' fiduciary duties and other contractual obligations to their Clients and the investors therein. However, there are potential conflicts of interest that could arise from the activities of the Private Feinberg Entities (and the private investments of other personnel of the Advisers) separate and apart from the activities of the Advisers, as described below.

Certain conflicts of interest could arise in connection with the management and operation of the Private Feinberg Entities. Although the Cerberus Compliance and Risk Management Committee and the Cerberus Securities Compliance Committee consider any such potential conflicts prior to granting their approval to the Private Feinberg Entities, no assurances can be made that all conflicts will be identifiable or fully considered at the time such approval, if any, is granted. For example, although the Private Feinberg Entities will be prohibited from investing in entities that at the time of acquisition are, or reasonably could be expected to become, directly competitive with Clients and/or any of their portfolio companies, such investments may be in entities that subsequently become competitive with such entities. However, while Mr. Feinberg and other personnel of the Advisers may take actions in respect of the Private Feinberg Entities that they consider to be in the best interests of the Private Feinberg Entities, the Advisers' policies require that no action will be permitted to be taken

unless such persons believe in good faith that such action is not in conflict with or contrary to the interests of the Clients. Notwithstanding the foregoing, there can be no assurance that conflicts between the interests of the Private Feinberg Entities and the Clients will not arise. In the event of such conflict, the Advisers will seek to resolve such conflict in a fair and equitable manner consistent with its duties to their Clients.

The Advisers have adopted policies and procedures to prevent and/or mitigate the actual and potential conflicts of interest that arise from the investment activities of the Private Feinberg Entities and of personnel of the Advisers. These policies and procedures include (i) the factors to be considered and the procedures to be followed in the analysis of such investment opportunities, (ii) the methods to be used to identify, monitor and control any actual or potential conflicts of interest such investment activity may generate with respect to the Clients, and/or their portfolio companies, (iii) the periodic monitoring of such outside activities to determine, among other things, whether a change in such outside investment activities or investments could give rise to a conflict of interest and (iv) how any such conflicts are to be both reported and resolved. See also the response to Item 11.

### **Acquisitions by Portfolio Companies**

Certain investment opportunities may be suitable acquisitions by a Client and by the portfolio companies of such Client or other Clients. If the Adviser believes, in its discretion, that an investment opportunity is better suited for acquisition by a portfolio company than by Clients, the Adviser may offer such investment opportunity to the portfolio company. As a result, a Client may not participate in such opportunity if such portfolio company is not a portfolio investment of such Client, or may be indirectly participating in such opportunity in a different percentage than if such investment opportunity was acquired by such Client and/or other Clients directly. The Adviser generally seeks to have portfolio companies invest in investment opportunities that provide synergies to their existing businesses and assist in the overall profitability of such portfolio companies.

### **Co-Investment Opportunities**

The Advisers may, from time to time, offer certain investors in the Clients the right or opportunity to co-invest with a Client and other Clients in certain portfolio investments. The Advisers are not obligated to arrange co-investment opportunities for any investor, and no investor will be entitled or have any right to participate in such an opportunity by reason of being an investor in a Client. The Adviser's decision to offer (or not offer) co-investment opportunities to any investor will be made in its sole discretion, and the Advisers may allocate co-investment opportunities instead to investors in other Clients or to third parties. The Adviser or its Affiliates may receive fees and/or allocations from Co-Investors, which may differ as among Co-Investors and also may differ from the fees and/or allocations borne by the Clients.

The Advisers may offer such opportunities in instances in which the amount available for investment exceeds the amount the Advisers believe should be invested by the Clients. The Advisers may also offer co-investment opportunities to other persons (including the Clients' portfolio companies) based on a number of factors, including, but not limited to, (i) the extent

by which the size of the transaction exceeds the amount the Advisers believe should be invested by the Clients, (ii) the ability of such persons to generate future investment opportunities or provide other benefits to the Clients, and/or (iii) the ability of such persons to provide analytical and market advice or other expertise that may be valuable to the Clients.

The Advisers may also allocate certain co-investment opportunities to certain investors in the Clients, subject to certain eligibility restrictions based on aggregate commitment amounts to the investors in the Clients or such other factors as the Advisers consider to be appropriate (a “Co-Investment Offer”). Any such Co-Investment Offer may include reductions to carried interest distributions or management fees in respect of such investors in the Clients who are not offered a requisite threshold of co-investment opportunities. Co-investment opportunities present inherent conflicts as described herein, and any Co-Investment Offer may present certain additional conflicts, such as (i) the potential incentive for the Advisers to allocate a portion of deals to Co-Investors even when the Clients have capacity to make them, (ii) the incentive for the Advisers to consider larger deals that offer co-investment capacity over smaller deals that do not, (iii) the risk that those larger deals will fail to close, causing larger broken deal costs and (iv) in the event of a failed syndication, an increased concentration of certain investment holdings by the Clients. Moreover, while the Clients’ investments are limited by the limitations described in Clients’ governing documents, the Advisers expect that portfolio investments of the Clients will remain below such limitations due to a number of considerations, including, without limitation, expected returns, portfolio diversification and the risk profile of the investment. Accordingly, the Advisers may make Co-Investment Offers even if a Client is below such limitations for a particular co-investment opportunity. The Advisers will seek to address any conflicts by allocating co-investment opportunities pursuant to the Investment Allocation Policy described herein.

Additionally, the Advisers may, from time to time, permit members of the Cerberus Operations team to co-invest in an investment involving their assistance. The Advisers may also, in their sole discretion, offer co-investment opportunities to other persons (including the Clients’ portfolio companies).

### **Financing with Other Affiliated Funds**

Applicable tax and regulatory considerations sometimes lead to certain investments being structured in a manner such that a Client (or an entity through which a Client makes an investment) obtains debt financing from (or enters into a similar transaction with) other Clients or other entities affiliated with such Client or the Adviser. In such cases, the equity interest of such Client is subordinate to such loans and, accordingly, there may be circumstances in which the loans made by the other Clients are repaid in full while such Client is not able to recoup its equity investment or earn an adequate return. These transactions, however, are generally structured so that the projected return to the equity investment of such Client, after taking into account such borrowings, if obtained, would exceed the return to the other Clients with respect to their loans. To the extent practicable in light of their duties to multiple Clients, the Advisers will seek to act in the best interests of all Clients in determining the amount of each such investment opportunity to structure as debt, the amount to structure as equity and the terms of any debt instruments. Such loans generally do not require the approval of a Client’s advisory board.

The equity holders and debt holders of a particular investment may have conflicting interests during the term of such an investment, especially if the investment is underperforming. In such circumstances, the Advisers will seek to ensure that all procedures that are necessary and proper, in its discretion, are implemented so that the interests of each Client are protected and that all such transactions are fair and appropriate to, and in the best interests of, each of the parties thereto.

### **Transactions Among Portfolio Companies**

Client investments may include controlling interests in portfolio companies. To seek to enhance the value of such companies, the Advisers may seek to cause a portfolio company to (i) do business with another portfolio company owned by Clients (an “Affiliate Company”), (ii) lend or borrow from an Affiliate Company, (iii) enter into joint ventures with an Affiliate Company or (iv) buy or sell an interest (including a controlling interest) in, or to, an Affiliate Company. A Client may have no interest in the Affiliate Company with which its portfolio company is doing business or engaging in any of the transactions described above. Alternatively, a Client may have divergent interests in various portfolio companies doing business or engaging in any of the transactions described above. The Advisers will seek to enter into transactions among portfolio companies owned by Clients where they believe that such transactions enhance the value of all such portfolio companies to the benefit of Clients and their investors. However, there can be no assurance that such transactions will benefit a Client’s portfolio companies, and such transactions may result in benefits solely to a portfolio company in which a Client has no interest.

Additionally, the Advisers may seek to cause one or more Clients’ portfolio companies to enter into transactions with one or more portfolio companies of the Private Feinberg Entities, provided, in each case, such transactions are approved by the Cerberus Compliance and Risk Management Committee and the terms thereof are at least as favorable to such Clients as would be available on an arm’s-length basis from unrelated third parties; there can be no assurance, however, that more favorable terms could not be achieved from other market participants. The Advisers will obtain approval from a Client’s advisory board for any such transaction.

### **Transactions with Portfolio Companies**

A Client may retain portfolio companies of Clients, including portfolio companies that are held by such Client and portfolio companies that are not held by such Client, to perform certain services for such Client. In addition, other Clients may retain a portfolio company held by such Client to perform certain services for such other Clients. A Client also may enter into other transactions with portfolio companies of Clients in which such Client may or may not have an interest (*e.g.*, to the extent consistent with the investment program of such Client, purchasing securities or MSRs or other assets from, selling securities or MSRs or other assets to, or entering into financing or other transactions with, such portfolio companies (both on an agency and principal basis)), subject to any limitations contained in, or approvals required by, a Client’s organizational documents and investment management agreement. For example, FirstKey Homes and FirstKey Mortgage are owned by one or more of the Clients are expected to provide a range of services to Clients with respect to their mortgage-related

and asset-backed businesses and assets, and may also sell Clients investor mortgage loans or other residential or commercial loan products that FirstKey Mortgage originates or acquires through its investor mortgage loan conduit, as described in Item 10, “Material Relationships or Arrangements with Industry Participants and Affiliated Advisers – Affiliated Service Providers.”

To the extent that Clients utilize the services of a portfolio company or participate in any such transactions in a percentage that is different than their ownership of the portfolio company (if any), other Clients may receive a larger or smaller proportional benefit with respect to the revenue generated by the portfolio company from such transactions.

The Advisers will seek to ensure that any such transactions are effected at market prices, the terms of the transactions and arrangements will contain terms at least as favorable to Clients as are generally obtainable on an arm’s-length basis from unrelated third parties and will provide for compensation that is competitive with the compensation paid to third parties for comparable services which could reasonably be made available to a Client.

#### **Transactions with Investors and their Affiliates.**

Investors and their affiliates engage in a broad range of activities in addition to their investments in a Client. Investors, or their affiliates, may enter into transactions or have other relationships with the Advisers (such as an investor a “Counterparty Investor”), including acting as a buyer or seller of portfolio investments, making investments in portfolio companies, entering into financing transactions with a Client and its portfolio companies, serving as a funding source for a buyer or seller of portfolio investments of a Client, purchasing structured debt issued by a Client and its portfolio companies and entering into other business arrangements with or related to the Advisers.

The terms of such transactions are negotiated on what is intended to be an arm's-length basis. However, the Adviser will be subject to a conflict of interest when determining such terms due to the benefit received from negotiating and maintaining a Counterparty Investor’s investment in a Client and/or the benefits received by the Adviser in its other business dealings with a Counterparty Investor. In addition, these relationships may influence the negotiation of side letters and terms of investments in a Client with a Counterparty Investor and the allocation of co-investment opportunities to a Counterparty Investor.

A Counterparty Investor will have access to information that other investors do not have and will be entitled to receive information regarding the Advisers, Clients and their activities by virtue of the transactions it enters into with the Advisers and Clients. While the Adviser may request that a Counterparty Adviser implement and maintain certain policies and procedures (e.g., information walls) to seek to ensure that the information that a Counterparty Investor receives by virtue of its business relationships with the Adviser and Clients does not flow through such Counterparty Investor’s organization in a manner that could enable such information to be used in respect of such Counterparty Investor’s investment in the Clients, the Adviser may not be able to obtain these assurances, and accordingly, this information could be used by a Counterparty Investor in making investment decisions with respect to a Client.

In addition, Counterparty Investors do not have fiduciary duties to a Client and are under no obligation to resolve any conflicts in favor of a Client. There may be situations where a Client and a Counterparty Investor have interests that diverge, including where a Client and a Counterparty Investor make separate investments in the same asset or issuer, or when a Counterparty Investor acts as a financing source for a Client. In the event a Counterparty Investor holds a security senior to that held by a Client or provides financing to a Client, such a Client's interest will be subordinate and may be in conflict to that of the Counterparty Investor in the event a Client or its portfolio companies have financial difficulties or default in their obligations. Additionally, as part of the financing or other structured transaction, the Counterparty Investor may be granted certain voting or control rights with respect to the underlying assets or the entity subject to such financing arrangements and may exercise such rights in conflict with and to the detriment of the interests of a Client or portfolio company subject to such transactions.

While the existence of a conflict of interest will not necessarily have an adverse impact on a Client, and a Counterparty Investor may have an incentive to see a Client succeed, the management or resolution of any conflict of interest involving a Counterparty Investor could have a material adverse effect on a Client and its investors.

#### **Conflicts Among Clients Relating to Different Investments in the Capital Structure of Portfolio Companies, Issuers and Borrowers**

Clients may invest in different layers of the capital structure of a portfolio company, issuer or borrower. For example, a certain Client (i) may own debt of a portfolio company, issuer or borrower while another Client owns equity in the same portfolio company, issuer or borrower, (ii) may own debt of a portfolio company, issuer or borrower while another Client owns a different tranche or other class or issue of debt of the same portfolio company, issuer or borrower, and/or (iii) may own equity of a portfolio company, issuer or borrower while another Client owns a different equity security of the same portfolio company, issuer or borrower. Furthermore, a Client may participate in debt originated to finance the acquisition by other Clients of an equity or other interest in an issuer or borrower.

To the extent a work out, reorganization or other major corporate event occurs with respect to any such portfolio company, issuer or borrower, conflicts may exist between the Clients invested in such portfolio company, issuer or borrower. The Adviser will seek to resolve such conflicts of interest in a fair and equitable manner. In particular, in the event there is a conflict resulting from one or more Clients being invested in a senior tranche of a financing and one or more Clients being invested in a different tranche of the same financing, the Advisers may refer the relevant determination to be made with respect to the Clients in the senior tranche to a separate conflicts committee comprised of independent members for its consideration and determination, while the Advisers may themselves continue to act on behalf of the Clients in the different tranche.

A Client may also invest in portfolio companies or other assets in which other Clients already have an investment. A Client may provide follow-on funding for a portfolio company, which may benefit both such Client and other Clients. Such Client will not make such an investment unless the Adviser or an Affiliate believes the investment fits within such Client's investment

program. Additionally, another Client may invest in a portfolio company in which a Client has a pre-existing investment. There can be no assurance that a Client will wish to make such follow-on investment or have available capital to do so, and the inability to make such follow-on investment may result in dilution of such Client's investment in the portfolio company.

To address these potential conflicts of interests in its material relationships, the Adviser has adopted policies and procedures, including a Code of Ethics and Business Conduct and the Investment Allocation Policy. For a more detailed discussion of the Adviser's Code of Ethics and Business Conduct and its allocations and conflicts of interest policies, please see Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading," below.

### **Dyal Capital Passive Minority Equity Investment in CBF Platform**

On December 22, 2017, the Adviser completed a transaction with affiliates of Dyal Capital Partners, L.P. ("Dyal") (a division of Neuberger Berman Group), in which Dyal made a passive minority equity investment in the portion of the Adviser's business related solely to the management of certain Clients and future Clients investing in CBF. The transaction was an opportunistic sale of a fully passive minority stake in a share of future management fees and future incentive amounts earned by the Adviser in connection with CBF and did not extend to the fees or interests in any other Client outside of CBF. No changes in the active management or operation of CBF's business were or are contemplated or required as a result of such transaction, and Dyal's investment has not and will not change the investment or decision-making process in CBF.

### **Special Purpose Acquisition Companies**

In addition to managing other Clients, the Adviser also sponsors and/or manages special purpose acquisition companies ("SPACs") that may compete with certain Clients for investment opportunities including, but not limited to, Cerberus Telecom Acquisition Corp., which has undergone an initial public offering and Cerberus Telecom Acquisition Corp. II, which is expected to undergo an initial public offering. Notwithstanding the foregoing, the Adviser does not expect that this will raise material allocation issues between a Client and an Adviser-sponsored SPAC, due to the following considerations, among others: (a) the SPAC will ordinarily seek to acquire a company that is prepared to be transitioned to public ownership (which may not be appropriate for Clients that generally target companies that are more suitable for an operational private equity investment program); (b) the Adviser is obligated to show potential SPAC deals to its "Private Equity Committee" first to ensure such deals are not otherwise appropriate for the Clients; (c) in circumstances where an opportunity is appropriate for both a Client and a SPAC, the Adviser expects to explore the feasibility of a joint acquisition or other co-investment between a Client and the SPAC in accordance with the Investment Allocation Policy; and (d) investment ideas generated within or presented to the Adviser that are suitable for both a SPAC and one or more Clients will, subject to applicable fiduciary duties, first be directed to the Clients before being directed, if at all, to the SPAC. If the Adviser determines to pursue any specific business opportunity, the Adviser will determine which entities will be allocated any such business opportunity in

accordance with its then-current policies and procedures and based on a number of factors, including the size of the target business, investment mandates of such entities, potential synergies and the other factors described herein.

### **Use of Portfolio Company and Third-Party Information by Cerberus Technology Solutions; Receipt of Additional Compensation.**

It is anticipated that, whenever a portfolio company, the issuer or borrower of a portfolio investment of a Client or other third party retains Cerberus Technology Solutions, Cerberus Technology Solutions may be provided with and may otherwise collect and analyze data and information about that portfolio company, issuer or borrower and/or other third party. Subject to any agreements with such portfolio company, issuer or borrower and/or other third party, Cerberus Technology Solutions may (i) use such data and information in providing services to a Client, other portfolio companies, issuers or borrowers and/or other third parties and/or (ii) sell, license or otherwise provide such data and information to other portfolio companies, issuers, borrowers and/or other third parties; provided that in the case of portfolio companies, such activities do not adversely affect such portfolio companies and such issuers or borrowers of a portfolio investment. Cerberus Technology Solutions may generate a profit through such use, sale, licensing or other provision of such data and information.

In addition, it is anticipated that Cerberus Technology Solutions may create, sell and/or license products and/or services containing, or capitalizing on the use of, such data and information, and an Adviser may recommend or encourage that a Client's portfolio companies (and/or those of the other Clients), and/or third parties with whom such portfolio companies conduct business, purchase and/or license such products and/or services, whether directly from Cerberus Technology Solutions or from unrelated third parties with whom Cerberus Technology Solutions conducts business and receives fees for the sale and/or license of products and services. In the event that a Client or a portfolio company purchases or licenses a product or service directly from Cerberus Technology Solutions or from a third party that has a business relationship with Cerberus Technology Solutions pursuant to which such third party pays a portion of the sales or licensing fees its receives (including from a Client or its portfolio companies) to Cerberus Technology Solutions, Cerberus Technology Solutions will receive such sales or licensing fees as additional compensation, whether directly from a Client or its portfolio companies or indirectly through payments made by a Client or its portfolio companies to such third parties.

### **Directors and Officers of Portfolio Companies**

Employees of the Adviser and members of the Cerberus Operations and Cerberus Technology Solutions teams may serve as directors and/or officers of portfolio companies of a Client. Accordingly, such employees and members may have a conflict where their fiduciary duty to the portfolio company may conflict with their fiduciary duty to a Client. In such circumstances, any such employee or member will act in accordance with his or her fiduciary duty to the portfolio company rather than any fiduciary duty such person may have to a Client.

In addition, certain directors, officers or employees of portfolio companies (i) are Co-Investors with a Client, (ii) have affiliations with third parties who provide professional or other services to a Client's other portfolio companies, a Client, or (iii) have other business relationships or affiliations with the Adviser. In instances where the Adviser, on behalf of a Client, appoints or retains (or influences the appointment or retention of) such directors, officers or employees, the Adviser will make determinations with respect to the qualifications and appropriateness of such persons in its sole discretion.

#### **Investments by Cerberus Employees**

Subject to applicable regulatory restrictions, certain employees of the Adviser are permitted to invest directly or indirectly in certain Private Funds. Such investors may be in possession of information relating to such Private Funds that is not available to other Clients. It is expected that, if such investments are made, the size and nature of these investments will change over time without notice to the Clients. Investments by the senior management and key employees in certain Private Funds could incentivize such employees to increase or decrease the risk profile of such Private Fund.

#### **D. Material Conflicts of Interest Relating to Other Investment Advisers.**

The Advisers do not anticipate recommending or selecting other investment advisers for Clients, and do not have other business relationships with any such advisers that create a material conflict of interest.

As described in the Adviser's Brochure, the Advisers are affiliated with Cerberus Sub-Advisory I, LLC. The Advisers and Cerberus Sub-Advisory I, LLC share resources including, without limitation, personnel, policies and facilities. As also described in the Adviser's Brochure, the Advisers and Cerberus Sub-Advisory I, LLC have adopted policies and procedures to mitigate and disclose any material conflicts of interest.

**ITEM 11**  
**CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**  
**AND PERSONAL TRADING**

**A. Code of Ethics.**

The Advisers have implemented a personal securities trading policy, which is incorporated by reference to the Advisers' Code of Ethics and Business Conduct (the "Code of Ethics"), that prohibits employees from engaging in transactions with respect to the securities of any issuer, public or private, subject to certain limited exceptions. One of the exceptions to the prohibition on personal trading of certain types of securities (generally, governmental securities, money market instruments, money market funds, open-end mutual funds, exchange-traded funds and unit investment trusts) where employees do not have any opportunity to benefit from any of the private, proprietary or confidential information of the Advisers or the Clients. In addition, employees and the Private Feinberg Entities may participate in private investments and make certain other investments upon advance written notice to and written approval from, in the case of all employees, the Securities Compliance Committee of the Advisers, and in the case of the Private Feinberg Entities, both the Securities Compliance Committee and the Compliance and Risk Management Committee.

Consistent with the foregoing policies, it is possible, in a limited number of circumstances, that employees of the Advisers will purchase or sell securities or other instruments of the type or kind of securities or other instruments also purchased and sold for Clients (or issued by borrowers to whom the Clients have extended credit) and/or which the Clients may otherwise hold from time to time.

The Advisers are committed to the highest standards of ethical conduct. In furtherance thereof, the Advisers' Code of Ethics designates a Compliance and Risk Management Committee (the "Compliance and Risk Management Committee") charged with the implementation of the Code of Ethics. The Code of Ethics specifies and prohibits certain types of transactions deemed to create actual conflicts of interest, the potential for conflicts or the appearance of conflicts, and establishes general guidelines for the conduct of the Advisers' personnel as well as clearance and/or reporting requirements and enforcement procedures.

With respect to the Private Feinberg Entities in particular, the investments made by such entities are investments that, at the time of investment, are opportunities that are determined by the Cerberus Compliance and Risk Management Committee and the Cerberus Securities Compliance Committee to be not appropriate for investment by any Client (although such investments may have originally been considered for investment by one or more Clients and subsequently determined to be not appropriate for investment by such Clients). In making determinations about the investment activities of the Private Feinberg Entities, the Cerberus Compliance and Risk Management Committee and the Cerberus Securities Compliance Committee consider a number of factors, including, without limitation, the investment strategies of the Clients, the return parameters of the Clients, and the Advisers' fiduciary duties to their Private Funds (and the investors therein) and their other Clients.

In recognition of the trust and confidence placed in the Advisers by the investors in the Private Funds, and by managed accounts, and to give effect to the Advisers' belief that their operations should be directed to the benefit of the Clients, the Advisers adopted the following general principles to guide the actions of their employees:

- (i) The interests of the Clients are paramount. All employees must conduct themselves and their operations to give maximum effect to this tenet by assiduously placing the interests of the Clients before their own.
- (ii) All permitted personal transactions in securities by employees must be accomplished so as to avoid the appearance of a conflict of interest on the part of such personnel with the interests of the Clients.
- (iii) All employees must avoid actions or activities that allow a person to profit or benefit from his or her position with respect to the Clients or that otherwise improperly bring into question the person's independence or judgment.
- (iv) All employees must report any violation(s) of the Code of Ethics or inappropriate conduct to the Compliance and Risk Management Committee.
- (v) All employees must comply with all applicable laws, rules and regulations, including U.S. federal securities law.

The Advisers require that all Adviser personnel avoid any relationship or activity that might impair, or even appear to impair, such individual's ability to make objective and fair decisions when performing job functions. The Code of Ethics prohibits Adviser personnel from using Adviser property or information for personal gain or personally taking for themselves any opportunity that is discovered through their Adviser position without the express written consent of the Compliance and Risk Management Committee. The Code of Ethics further requires that employees disclose any situation, including situations pertaining to the employee's family members, which reasonably could be expected to give rise to a conflict of interest. The Code of Ethics also contains general prohibitions against fraud, deceit and manipulation, as well as additional restrictions and requirements regarding gifts, entertainment and outside activities.

The Advisers have adopted a Securities Compliance Policy and have designated a Securities Compliance Committee charged with the implementation of such policy. The Securities Compliance Policy sets forth, among other things, policies and procedures regarding material nonpublic information and proprietary Adviser information, and employee accounts and trading. The policies and procedures contained in the Securities Compliance Policy are designed to (i) provide for the proper handling of both material nonpublic information about companies or other issuers and proprietary information of the Advisers, (ii) prevent violations of laws and regulations prohibiting the misuse of material nonpublic information about companies or other issuers and/or proprietary information of the Advisers and (iii) avoid situations that might create an appearance that material nonpublic information about companies or other issuers or proprietary information of the Advisers has been misused. In furtherance thereof, the Securities Compliance Policy prohibits employees from misusing

material nonpublic information and/or nonpublic proprietary information, and sets forth general and specific procedures to restrict the flow of material nonpublic information from employees performing investment, transactional, lending, finance, private research and/or private analysis activities of the Advisers to employees responsible for or involved in the securities trading activities of the Advisers.

Notwithstanding the internal screening procedures set forth in the Securities Compliance Policy, there may be certain instances where the Advisers receive material nonpublic information due to their various activities on behalf of the Clients and are restricted from purchasing or selling securities or other instruments for the Clients. The Advisers seek to minimize those cases whenever possible, consistent with applicable law and the Securities Compliance Policy, but there can be no assurance that such efforts will be successful and that such restrictions will not occur.

The Securities Compliance Policy is incorporated by reference to the Code of Ethics. The Adviser will provide a copy of the Code of Ethics to any Client or investor in a Private Fund or prospective client or investor in a Private Fund upon request.

Adviser personnel are required to certify to their compliance with the Code of Ethics, including the Securities Compliance Policy, on an annual basis.

Subject to applicable regulatory restrictions, certain employees of the Advisers are permitted to invest directly or indirectly in the Private Funds. Such investors may be in possession of information relating to the Private Funds that is not available to other investors and prospective investors. It is expected that, if such investments are made, the size and nature of these investments will change over time without notice to investors and it is possible that such employees may withdraw on the basis of information that is not available to the other investors and prospective investors. Investments by the senior management and key employees of the Advisers in the Private Funds could incentivize such employees to increase or decrease the risk profile of such Private Funds.

**B. Securities That the Adviser or a Related Person Has a Material Financial Interest.**

A Client may (i) make a loan to, (ii) purchase a security or other instrument or asset (including participations in loans or other investments) from, (iii) sell a security, instrument or other asset (including participations in loans or other investments) to, or otherwise engage in cross trades with, another Client; provided that, with respect to certain Clients and certain material transactions described in such Client's organizational documents, the Adviser receives approval to do so from such Client's advisory board or other committee.

Notwithstanding the foregoing, and subject to a Client's organizational documents, such advisory board approval is generally not required with respect to (i) any loan to, (ii) purchase of a security or other instrument or asset from or (iii) sale of a security or other instrument or asset to an Affiliate or another Client if such transaction (x) is between a Client and any SPV, securitization vehicle, pooled investment vehicle or other alternative investment vehicle (provided that the Adviser believes in good faith that such transaction does not present a

conflict of interest), (y) is an allocation adjustment effected at cost plus a use of funds charge made in accordance with the Investment Allocation Policy (including, for example, a final allocation of an investment made within 45 days of the date of origination or acquisition) or (z) is made for tax or regulatory purposes. For the avoidance of doubt, any transaction with a portfolio company of any Clients that is effected in compliance with law, on terms at least as favorable to such Clients as are generally obtainable on an arm's-length basis from unrelated third parties for transactions of such nature, shall not be deemed a material transaction with another Client that requires the approval of such advisory board, subject to such Clients' organizational documents.

In particular, and subject to a Client's organizational documents, advisory board approval is generally not required with respect to (i) any transaction whereby a Client contributes assets to a securitization vehicle together with similar assets contributed by other Clients, in each case at fair market value, in exchange for securities issued from such securitization vehicle and (ii) any transaction where a Client contributes capital and/or other assets to a pooled investment vehicle (*e.g.*, a REIT), in exchange for equity in such pooled investment vehicle (issued at the then-current net asset value of such pooled investment vehicle, by reference to the amount of capital and/or the fair market value of the other assets contributed, as applicable), which equity interest gives certain Clients a *pro rata* interest in the assets of the pooled investment vehicle (including assets that existed prior to such Client investing therein), in each case, will not be a transaction that requires approval of the Advisory Board.

Certain Clients may participate, in the manner set forth in clause (ii) above, in the following vehicles: (a) a REIT or other holding company that invests in single-family rental properties or to acquire multi-family homes and single-family homes (an "SFR REIT"); (b) a vehicle that invests in cold storage real estate properties; (c) a vehicle that invests in development properties in Europe; (d) a vehicle that invests in logistics investments globally; and/or (e) any other vehicles structured in a similar manner. For the avoidance of doubt, the admission of another Client into any such vehicle in the manner described above will similarly not give rise to the need for Advisory Board approval.

Further, any transaction whereby certain Clients, redeem or make a distribution from any of the aforementioned vehicles described pursuant to clauses (x) and (y) above, will not require approval of the Advisory Board.

The Adviser has implemented policies and procedures intended to ensure that the foregoing transactions described in this Item 11(B) be, in the reasonable determination of the Adviser, in the best interests of each Client participating therein. Such transactions will be executed at market price (or fair value), measured in accordance with the Adviser's valuation policies and procedures, and will comply with all fiduciary requirements and any legal or other requirements established by the Adviser for the benefit of each of the Clients which participate in such transaction. The Adviser will receive no transaction-based compensation in connection with such transactions (other than the management fees and incentive allocations/fees otherwise payable by the Clients participating in such transactions).

Clients' assets and liabilities are valued in accordance with the Adviser's valuation policy and procedures. In making valuation determinations, the Advisers may be deemed subject to

a conflict of interest, especially with respect to illiquid assets and securities, as the valuation of such assets and liabilities may affect the compensation of certain employees of the Advisers. There is no guarantee that the value determined with respect to a particular asset or liability by the Advisers will represent the value that will be realized by a Client on the eventual disposition of the related investment or that would, in fact, be realized upon an immediate disposition of the investment. Additionally, a Client's portfolio of investments will, at any given time, include securities or other financial instruments or obligations that are very thinly traded or for which no market exists or which are restricted as to their transferability under applicable securities laws. These investments may be extremely difficult to value accurately.

Pursuant to organizational documents of certain Clients, the Adviser is authorized, on behalf of the investors, to select one or more persons, who shall not be an Affiliate of the Adviser, to serve on a committee, the purpose of which is to consider and, on behalf of the investors, approve or disapprove, to the extent required by applicable law or deemed advisable by the Adviser, principal transactions, certain other related-party transactions and certain other transactions and matters. The person(s) so selected may be exculpated and indemnified by such Client in the same manner and to the same extent as the Adviser is so exculpated and indemnified. To the extent such person or committee is asked to approve any matter, its decision will be binding on all investors. The decision to seek consent for a transaction or other matter from the person or committee described in this paragraph will be made by the Adviser, at its sole discretion.

In no event will any cross trade, principal transaction or other transaction described in this Item 11(B) be entered into unless it complies with applicable law.

**C. Investing in Securities That the Adviser or a Related Person Recommends to Clients.**

See response to Item 11(A).

**D. Conflicts of Interest Created by Contemporaneous Trading.**

The Advisers continuously examine and modify their policies and procedures, including, without limitation, those governing investment allocations and other policies and procedures described in the Adviser's Brochure, to best achieve the Adviser's goal of fair and equitable treatment of all advisory clients (and investors therein) in light of the Advisers' then current operations and market environment.

The Adviser manages investments on behalf of a number of Clients. Certain Clients have investment programs that are similar to or overlap with each other, and, therefore, such Clients may participate with each other in investments.

**Investment Allocation Policies**

The Adviser manages investments on behalf of a number of Clients. Certain Clients have, or are expected to have, investment programs that are the same as, similar to or overlap with the

investment program of certain other Clients, and may, therefore, participate with the Clients in investments or otherwise be invested in the same portfolio investments or borrower. All investment decisions and allocations will be made in accordance with the Investment Allocation Policy, as such policy and procedures are in effect and as may be amended from time to time. A summary overview of the Investment Allocation Policy with regard to the Clients' investment strategy as in effect on the date hereof is included below.

Investment decisions and allocations are not necessarily made in parallel among all Clients. If an investment is appropriate for one or more of the Clients, the investment generally is allocated among such Clients *pro rata* based upon (i) the target portfolio holdings of that type of investment for each of such Clients and (ii) the available investment capital of each of such Clients, except that, (A) for certain specified securities, instruments and assets generally sourced by the Advisers and/or mortgage-backed securities (and other closely related securities) generally sourced by the Advisers (collectively, the "RMBS/CMBS Related Securities/Assets"), the investments generally are allocated among such Clients *pro rata* based upon the Fill-Up Amount for each of such Clients (as described below); (B) for certain single-family residences or single-family rental properties and/or mortgages purchased with the intent to own such residences and/or properties (and other closely-related assets) ("SFR Assets") acquired pursuant to the Adviser's single-family rental strategy, the Adviser may create one or more groups of Clients participating in such strategy (each, an "SFR Group") and allocate the SFR Assets among such SFR Groups as described below; and (C) subject to certain exceptions, hedging transactions, follow-on investments, re-securitization transactions and similar investments generally are allocated *pro rata* in accordance with the holdings of each Client of the underlying investment to which such hedge, follow-on investment or re-securitization transaction relates.

For investment allocation purposes, available investment capital of the Clients generally is determined as follows with respect to investments other than certain RMBS/CMBS Related Securities/Assets: (a) with respect to any Client where investors make capital commitments that are drawn over time (rather than making periodic capital contributions and withdrawals) and that is not a Hybrid Fund (as defined below) or Lending Fund (as defined below) (a "Commitment Fund"), available investment capital generally is the aggregate capital commitments of such Commitment Fund; (b) with respect to any Client where investors make capital contributions and withdrawals periodically during the existence of the fund (rather than having a fixed commitment and draw down period) and that is not a Hybrid Fund or Lending Fund (a "Liquid Fund"), available investment capital generally is the net asset value of such Liquid Fund; (c) with respect to any Client that has as part of its primary investment objective and/or primary investment activity the origination of loans or the investment in loans originated by one or more other Lending Funds or Adviser affiliates (a "Lending Fund")<sup>1</sup>, available investment capital generally is the sum of the available cash plus

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<sup>1</sup> Certain Lending Funds (including, without limitation, certain offshore Lending Funds) do not originate loans but invest in such loans (the "Non-Originating Funds" and the Lending Funds that do originate loans, the "Originating Funds"). Clients that have as their primary investment objective and/or primary investment activity the origination of and/or investment in loans primarily related to and/or secured by real estate assets generally are not considered Lending Funds for purposes of the Investment Allocation Policy, but, rather, shall be considered a Commitment Fund, Liquid Fund or Hybrid Fund, as applicable.

the undrawn capital commitments of each of such Lending Funds; and (d) with respect to any Client that otherwise would be a Liquid Fund but where one or more investors make commitments for future capital contributions on a delayed-draw or other future-funding basis (a “Hybrid Fund”), available investment capital generally is the sum of the net asset value plus the uncalled capital of such Hybrid Fund.

For investments that are RMBS/CMBS Related Securities/Assets, available investment capital for all Clients (whether Commitment Funds, Liquid Funds, Lending Funds or Hybrid Funds) generally is the sum of the net asset value, plus the uncalled capital, if applicable and if any, of each of such Clients, respectively, and the “Fill-Up Amount” used to allocate such RMBS/CMBS Related Securities/Assets is the product obtained by multiplying (i) the target holdings for each of the Clients with respect to such RMBS/CMBS Related Securities/Assets by (ii) such available investment capital of such Clients, and then subtracting therefrom the then-current holdings of each of such Clients in such RMBS/CMBS Related Securities/Assets strategy or sub-strategy.

The RMBS/CMBS Related Securities/Assets generally include, but are not limited to, investments sourced by and/or managed by the Advisers and/or commercial mortgage-backed (and other closely related) securities, instruments and assets sourced by and/or managed by the Advisers, including, but not limited to, (i) residential mortgage-backed bonds or other residential mortgage-backed securities; real estate whole loans acquired with the intention of being securitized, including home equity lines of credit, liens of mortgages or similar instruments; single family residence bonds or other evidences of indebtedness with respect to single family residence debt; originally issued or secondary purchased residential and/or commercial mortgage debt; other loans, bonds and/or evidences of indebtedness; student loans and related student debt instruments; consumer loans and related consumer loan debt instruments, including but not limited to credit card receivables and other asset loans and receivables; commercial loans and related commercial loan debt instruments; derivative instruments with respect to any of the foregoing; and any other related assets or instruments as determined by the Adviser’s “Allocation Committee,” but excluding single family residences acquired pursuant to the Advisers’ single family rental strategy and any other investments not otherwise contemplated to be included as part of the RMBS/CMBS Related Securities/Assets as a result of their characteristics, terms and/or other factors; and (ii) commercial mortgage-backed securities and other securities, instruments and assets closely related thereto, as well as any other securities, instruments and/or assets determined by the Adviser’s Allocation Committee to be RMBS/CMBS Related Securities/Assets as a result of their characteristics, terms and/or other factors.

In addition, for the purposes of determining the amount of an investment to be allocated to the Lending Funds, such Lending Funds’ available investment capital generally includes the financing available to such Lending Funds pursuant to financing arrangements in place with respect to their investment strategy (such as a line of credit or other financing facility), but excludes any subscription facilities related to investor commitments to such Lending Funds. Because the available investment capital for Lending Funds generally includes such amounts available under financing arrangements, while the available investment capital for Clients that are not Lending Funds generally does not include such amounts, and because such differences in the calculation of available investment capital could create disproportionate or

inequitable results to the extent that one or more Lending Funds participate in an investment opportunity along with one or more Clients that are not Lending Funds, in such circumstances the Adviser determines the appropriate basis for allocation of such investment opportunity among such Lending Funds and such other Clients that are not Lending Funds in order to most accurately reflect the purpose, spirit and intent of the Investment Allocation Policy and the relevant facts and circumstances.

In addition, certain other specific procedures may apply with respect to the allocation and purchase of loans by certain non-originating Lending Funds from originating Lending Funds, as well as the allocation of certain secondary investments to non-originating Lending Funds, as such additional procedures are contemplated in the Investment Allocation Policy. These additional procedures may result in certain loans originated by Originating Funds not being transferred (or being transferred in smaller amounts) to Non-Originating Funds and/or in Non-Originating Funds holding greater amounts of secondary investments than the Originating Funds.

Notwithstanding the foregoing, with respect to allocations of SFR Assets, the Adviser may determine that it is necessary or beneficial to create one or more SFR Groups (*e.g.*, due to different investment periods, asset holding timelines, levels of leverage, financing and collateral requirements, exit strategies, regulatory requirements, structuring requirements and/or other factors with respect to their investments in SFR Assets), and that due to the differences among such SFR Groups, it is advisable and/or appropriate that certain separate SFR Groups not invest together in the same SFR Asset (*e.g.*, the same house). In such circumstances, and to the extent such SFR Asset is not readily severable or divisible prior to the allocation thereof, the Adviser may allocate individual SFR Assets to individual SFR Groups based on (i) the aggregate available investment capital and (ii) the target portfolio holdings, in each case, for the particular type of SFR Asset attributable to the Clients that comprise each such SFR Group (the “Target SFR Group Holdings Amount” (and then within each such SFR Group, to the Clients in such SFR Group based on (i) their respective available investment capital and (ii) their respective target portfolio holdings of that type of SFR Asset), provided that the Adviser generally will allocate each SFR Asset in each applicable real estate market to the SFR Groups in a manner such that over the relevant measurement period each SFR Group has received a number of SFR Assets (though not the same SFR Assets) in such market approximately equal to such SFR Group’s SFR Group Allocation Percentage. The “SFR Group Allocation Percentage” with respect to an SFR Group is determined by dividing the Target SFR Group Holdings Amount for such SFR Group by the total Target SFR Group Holdings Amount of all SFR Groups for such SFR Asset. The Adviser may use one or more methods<sup>2</sup> to give effect to the foregoing as it will

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<sup>2</sup> In particular, the Adviser may use a random number generator methodology that involves assigning each SFR Asset purchased in each applicable real estate market a randomly generated number between zero and one and allocating SFR Assets to each SFR Group based on assigned numbers that correspond to such SFR Group’s SFR Group Allocation Percentage. For example, if there are two SFR Groups – the first having an SFR Group Allocation Percentage of 66.66% with respect to an SFR Asset and the second having an SFR Group Allocation Percentage of 33.33% with respect to such SFR Asset – the first SFR Group would be allocated SFR Assets with a random assigned number greater than 0.3333 and the second SFR Group would be allocated SFR Assets with a random assigned number less than or equal to 0.3333, and the result of that process will be that the first SFR

reasonably determine, and will periodically review the allocation of SFR Assets across each SFR Group to ensure that the separate allocations of SFR Assets have not resulted in unintended or undesired concentrations to one or more SFR Groups. In the event the Adviser determines that such a discrepancy exists, it will use commercially reasonable efforts to adjust the allocation of SFR Assets on a going-forward basis in a fair and equitable manner until the Adviser determines that such discrepancy has been resolved on an aggregate basis of holdings of SFR Assets among each of the SFR Groups.

Currently, the Adviser has created one SFR Group consisting of several Clients that invest in a portfolio of SFR Assets (the “Pre-Existing SFR Portfolio”). The Adviser expects to create an additional SFR Group that will invest in SFR Assets with a longer expected duration than the SFR Assets comprising the Pre-Existing SFR Portfolio.

Although the Adviser believes its methods of allocating SFR Assets accurately reflects the purpose, spirit and intent of the Investment Allocation Policy, it is possible that one or more SFR Groups may receive a disproportionate allocation of SFR Assets in an applicable real estate market, and/or that one or more SFR Groups may have performance results that are materially different from those of other SFR Groups.

To the extent any Client does not have sufficient capital available to fund its *pro rata* allocation of any particular investment (whether as a result of such Client’s existing investments, commitments for future investments, reserves for anticipated future cash needs or otherwise), such Client participates in such investment only to the extent of its capital available to do so, and any excess amounts that would have been allocated to such Client for such investment are instead allocated to the other Clients participating in such investment, as applicable, otherwise in the same manner as the rest of such investment was allocated.

Notwithstanding the foregoing, hedging transactions, follow-on investments, re-securitization transactions and similar investments generally will be allocated *pro rata* in accordance with the holdings of each Client of the underlying investment to which such hedge, follow-on investment or re-securitization transaction relates, subject to certain exceptions.

The Adviser, in its sole discretion, also may make non-*pro rata* allocations among the Clients based upon a wide variety of factors including, among other things, tax and regulatory considerations, including but not limited to, the potential restrictions and/or other conditions that may be imposed as a result of the participation by a Client that is subject to the AIFM Directive, the overall portfolio composition of such Clients, different terms governing the Clients and the risk profile and investment restrictions (including limitations with respect to leverage) for such Clients. For example, to the extent that a secondary investment that was sourced by an Adviser may also be appropriate for investment by a Client that is not a Lending Fund (as determined by the Adviser’s Allocation Committee), there may be circumstances where, due to the applicable tax, structure or other requirements of one or more non-originating Lending Funds (“Relevant Lending Funds”), the Adviser may allocate

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Group should be allocated approximately 66.66% of all SFR Assets purchased in each applicable real estate market the second SFR Group should be allocated approximately 33.33% of all SFR Assets in each applicable real estate market.

such investment opportunity to the Relevant Lending Fund(s) in priority to such other Clients that are not Lending Funds and which, therefore, may result in such Clients that are not Lending Funds receiving no (or a significantly smaller) allocation of such investment opportunity and Lending Funds receiving a larger allocation of such investment opportunity. In addition, the Clients have the ability to make investments that are above certain Clients' portfolio concentration limits, to the extent that such amounts are expected to be syndicated within a certain time period. The Clients with the ability to exceed concentration limits in connection with syndication activities may receive outsized allocations relative to other Clients.

The Adviser may also determine to make allocations that are below the prescribed concentration limits for a given Client. For instance, certain Clients are subject to the single issuer investment limitation. Notwithstanding such limitation, the Adviser expects that portfolio investments of certain Clients may be substantially below the single issuer investment limitation based on a number of considerations, including, without limitation, expected returns, portfolio diversification, and the risk profile of the investment, and that the single issuer investment limitation, as noted in various fund governing documents, is to be considered an upper bound as opposed to a prescribed allocation percentage.

In addition, the initial allocation of any investment among the Clients may be subject to subsequent adjustment within the 45-day period immediately following such investment to reflect any adjustments in the Clients during such period (such as the launch of one or more new Clients) that would normally be taken into consideration at the time of such investment allocation. Any Client, that did not participate in the initial allocation of an investment that is subsequently allocated a portion of such investment will be charged an amount representing the cost of the capital invested by the Clients that received the initial allocation of such investment, and such amount will be paid to each of the Clients that received the initial allocation of the investment and from which a portion of the investment is reallocated.

The cost of capital charge will be paid with respect to the reallocated portion of each investment only, and will be at a rate determined by the Adviser in its reasonable discretion representing the prevailing market rate at which the Clients could reasonably borrow cash at the time of the investment reallocation. Such cost of capital charge will be calculated from the date of the initial deployment of capital with respect to such investment by the Clients that received the initial allocation of such investment through the date of payment for such deployed capital by the respective Clients that received the subsequent reallocation. The reallocation and cost of funds charge will be based on the cost of the investment regardless of whether the value of the investment increases or decreases after its purchase.

Although sales of investments held by multiple Clients generally are expected to be sold by the Clients on a *pari passu* basis, the Adviser, in its sole discretion may sell investments from various Clients on a non-*pro rata* basis based on a wide variety of factors including those described above in respect of allocations of investment opportunities including, for the avoidance of doubt, in consideration of potential restrictions and/or conditions that may be imposed on a Client that is subject to the AIFM Directive. In addition, to the extent a Client has been allocated an investment opportunity that exceeds such Client's single investment concentration limits (pursuant to an intended syndication with respect to the excess amounts,

as permitted under the governing documents of such Client), a Client will generally sell amounts in excess of such Client's single investment concentration limits (as part of a syndication) prior to selling amounts held by other Clients (to the extent such Clients will participate in the relevant sale) that are not similarly held as part of a syndication effort. Accordingly, it is possible that one Client may be selling an investment, while another Client is retaining or investing more capital in the same investment.

The Client could be disadvantaged by the investment activities of other Clients and by redemption or withdrawal requests by investors in other Clients that offer their investor redemption or withdrawal rights (including the Liquid Funds). For example, the sale of an investment by another Client could increase the concentration of certain investment holdings of a Client and could possibly lead to situations where a Client either has to, or conversely, cannot, enter into a transaction or capitalize on an investment opportunity. In the event that a Liquid Fund participates with a Client in an investment, if such Liquid Fund experiences a substantial level of redemptions, the need to satisfy such redemption requests may result in the sale of such investment.

Certain Clients could be disadvantaged by the investment activities of other Clients and by redemption or withdrawal requests by investors in other Clients that offer their investors redemption or withdrawal rights (including the Liquid Funds). For example, the sale of an investment by another Client could increase the concentration of certain investment holdings of certain Clients and could possibly lead to situations where the certain Clients either have to, or conversely, cannot, enter into a transaction or capitalize on an investment opportunity. In the event that a Liquid Fund participates with certain Clients in an investment, if such Liquid Fund experiences a substantial level of redemptions, the need to satisfy such redemption requests may result in the sale of such investment by such Clients.

Because the Adviser may make non-*pro rata* allocations, other Clients with the same, similar or overlapping investment programs may produce results that are materially different from those experienced by a Client. Additionally, other Clients may have different investment programs from a Client and make investments that are different as a result of such differing investment programs, which may also produce results that are materially different from those experienced by a Client.

For certain Clients, the goal is to allocate a portion of every real estate and real estate-related investment originated and consummated by the Adviser to certain Clients; however, certain follow-on investments and investments with lower expected returns and/or for which real estate is not the primary focus, may be fully allocated to other Clients.

Allocations to a Client are subject to the terms and limitations set forth in the governance documents of such Client.

The Advisers will allocate investment opportunities prior to or at the trade date or closing of an investment. Particularly with respect to loans, private equity investments and certain other illiquid investments, it is not always possible or practical to determine the proper initial allocation of an investment opportunity prior to or at the closing of the investment. This delay may be due to, among other things, uncertainty of investment structure prior to closing,

pending tax analysis, imminent first closings of new funds or series therein prior to or at the time of the closing of an investment, and/or a variety of other circumstances. In such an event, the Advisers may effect the investment in one or more Clients with the understanding that the Advisers will finally allocate the investment after closing.

The Adviser reserves the right to modify its Investment Allocation Policy from time to time. A copy of the current Investment Allocation Policy is available upon request to existing or potential Clients (or existing or potential underlying investors in Clients).

### **Tax Issues Impacting Investment Allocations**

Certain Clients have tax considerations that limit the types of investments such Clients may make and that impact the method by which investments are structured. As a result, these Clients may have different allocations of investment opportunities than they might otherwise have in the absence of such tax considerations. In addition, as a result of tax considerations, certain Clients end up investing in different levels of the capital structure of a portfolio company. For example, investments may be structured so that one Client receives loans from, or makes loans to, another Client; provided that the Adviser acts in the best interests of the Clients in structuring such loans. In structuring such investments, the Adviser will weigh the conflicting interests of the different Clients in determining the amount to allocate to debt and equity and the terms of these loans.

## ITEM 12 BROKERAGE PRACTICES

### A. **Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.**

The Adviser or one or more of its Affiliates has complete discretion, without obtaining specific client consent, to (i) buy or sell securities, (ii) determine the amount of the securities to be bought or sold, (iii) select the broker or dealer to be used in such purchase or sale and (iv) agree to the commission rates paid in connection with such purchase or sale.

The Advisers will generally effect transactions with brokers that (with respect to U.S. securities) are registered with the SEC and are members of the Financial Industry Regulatory Authority. The Advisers will select brokers on the basis of their ability to provide best execution (including both the trade price and commission and a variety of other factors).

Investors in the Clients may include investors affiliated with brokers or, possibly, brokerage firms themselves. The fact that any such investor has invested in a Client will not be taken into consideration in selecting brokers (including prime brokers).

#### 1. Research and Other Soft Dollar Benefits.

The Advisers have not entered into written soft dollar arrangements. The Advisers will attempt to negotiate the lowest available commission rates commensurate with the assurance of reliable, high quality brokerage services. However, the Advisers may select brokers that charge a higher commission or fee than another broker would have charged for effecting the same transaction; provided, that the selection of a broker will be made on the basis of best execution, taking into consideration various factors, including commission rates, reliability, financial responsibility, strength of the broker-dealer and the ability of the broker to efficiently execute transactions, the broker's facilities, and the broker's provision or payment of the costs of research and other services or property that are of benefit to the Adviser or other Clients to which the Advisers provide investment services; provided, further, that the Advisers may be influenced in their selection of brokers by their provision of other services, including, without limitation, capital introduction, marketing assistance, information technology services, operations and operating equipment and other services or items. Such execution services, research, investment opportunities or other services may be deemed to be "soft dollars." As noted above, however, the Advisers have not entered into written soft dollar arrangements. In the event that the Advisers enter into "soft dollar" arrangements, they will do so within the "safe harbor" of Section 28(e) of the Securities Exchange Act of 1934.

The provision by a broker of research and other services and property to the Adviser creates an incentive for the Advisers to select such broker since the Advisers would not have to pay for such research and other services and property as opposed to solely seeking the most favorable execution for a Client. Any research, services or property provided by a broker may benefit any Client and such benefits may not be proportionate to commission dollars related to the provision of such research, services or property.

2. Brokerage for Client Referrals.

As discussed above, subject to best execution, the Advisers may consider, among other things, capital introduction, marketing assistance, information technology services, operations and operating equipment and other services or items in selecting broker-dealers for Client transactions. The Advisers do not receive Client or investor referrals in exchange for brokerage business.

3. Directed Brokerage.

The Adviser does not recommend, request or require that a Client direct the Adviser to execute transactions through a specified broker-dealer.

**B. Aggregated Orders for Various Client Accounts.**

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

**C. Trade Errors.**

The Adviser has adopted a trade error policy and related trade error procedures to facilitate the prompt and appropriate resolution of trade errors. Trade errors may occur as a result of mistakes made on the part of an executing broker, or mistakes on the part of Adviser personnel, including, but not limited to, portfolio managers, traders and/or operations staff. Trade errors may include, for example, keystroke errors that occur when entering transactions into electronic trading systems, failures of oral or other communications between and among the Advisers' investment staff, trading staff and operations staff, or between the Advisers' personnel and the third parties, such as executing brokers, with whom the Adviser conducts trading activities or typographical or drafting errors related to purchase contracts or similar agreements. In accordance with the Adviser's trade error policies and procedures, all trade errors, if any, are promptly and appropriately reviewed, evaluated and resolved, and any gains or losses resulting therefrom are allocated properly between the Adviser, the applicable Clients and, where applicable, third parties. Gains and losses from multiple trade errors, if any, generally are not netted. Rather, each trade error generally is separately resolved in accordance with the policy and procedures described herein.

The Adviser strives to correct all trade errors prior to the settlement of any transaction, and to minimize gains and losses resulting from trade errors. Trade errors caused by third parties, such as executing brokers, are the responsibility of the third party and the Adviser endeavors to have the affected Clients reimbursed for such trade errors by such third parties. Such reimbursements generally are in accordance with the agreements in effect from time to time

between the Adviser and such third parties, such third parties' customer policies and procedures and governing law. The Adviser does not absorb and is not otherwise responsible for losses resulting from trade errors caused by third parties and the Adviser does not utilize soft dollar arrangements in resolving trade errors.

To the extent that a trade error may occur on the part of the Advisers' personnel, it almost always would occur as part of the business of the Advisers in effecting transactions for Clients in the ordinary course of their businesses. Thus, to the extent of any trade errors with respect to a Client, (i) all gains in such Client's account resulting from such trade errors will remain in such Client's account for the benefit of such Client and (ii) in accordance with the exculpation and indemnification provisions between such Client and the Advisers, all losses resulting from such trade errors (that are not reimbursed by third parties, such as executing brokers) will be borne by such Client, and not the Advisers, unless (a) such trade error was caused by the Advisers or their personnel acting (or failing to act) in violation of the standards of care applicable to the exculpation and indemnification protections afforded to the Advisers in any applicable governing documents or agreements with respect to Clients or (b) reimbursement by the Advisers to such Client is otherwise required by applicable law.

The Adviser generally will not notify investors in any Client that a trade error has occurred unless a determination has been made that the trade error has or will have a material adverse impact on the investors and/or a Client.

The Adviser maintains a record of trade errors which includes, among other things, the date that the trade error occurred, a description of the persons and entities involved in and the circumstances surrounding the trade error, and the means by which the trade error was addressed and/or resolved. Such record is maintained in accordance with the Adviser's recordkeeping policies.

#### **D. Allocation Errors.**

The Advisers seek to confirm that the proper allocations are made across the Clients for all investment opportunities. However, should an error be made with respect to the allocation of a particular investment opportunity, the Advisers will seek to correct such error, where possible, to put each Client involved in such allocation error in the same place as it would be if such error had not occurred.

## **ITEM 13**

### **REVIEW OF ACCOUNTS**

#### **A. Frequency and Nature of Review of Client Accounts or Financial Plans.**

The Adviser performs various daily, monthly, quarterly and other periodic reviews of the Clients' portfolios. Daily reviews include account liquidity monitoring by the Adviser's risk personnel and members of the Financial Risk Management Sub-Committee, as well as trade reviews by the Adviser's Chief Compliance Officer and various personnel in Operations, Trading and Compliance. Monthly reviews include portfolio valuation, price validations and account concentration monitoring by the Adviser's Chief Financial Officer and risk personnel. Quarterly reviews include portfolio valuation reviews by the Adviser's Valuation Committee. Periodic reviews include portfolio monitoring by the Adviser's Chief Administrative Officer/Senior Legal Officer.

#### **B. Factors Prompting Review of Client Accounts Other Than a Periodic Review.**

A review of a Client account may be triggered by any suspicious or unusual activity or special circumstances.

#### **C. Content and Frequency of Account Reports to Clients.**

Investors in the Private Funds and managed account Clients receive from the Advisers, typically in an electronic format, unaudited quarterly reports providing summary financial and other information on their Private Fund or account. The Advisers may provide certain investors with information on a more frequent and detailed basis if agreed to by the Advisers. In addition, the Advisers provide to investors of the Private Funds, typically in an electronic format, audited financial statements concerning their respective Private Fund and tax information necessary for the completion of such investor's return within 120 days after the end of the Private Fund's fiscal year.

Investors are also provided with performance and other detailed information so that each investor can monitor its investment in the Clients. The Advisers welcome inquiries from investors in the event any investor desires information not contained in the Advisers' Form ADV Part 1, Form ADV Part 2 or other relevant offering material or Client reports. The Advisers will endeavor to answer all reasonable and appropriate questions in a timely fashion, while maintaining the confidentiality of sensitive nonpublic and proprietary information related to the operations and investments of the Advisers and the Clients. The Advisers do not publish investor questions and answers and generally do not otherwise disseminate such answers to all investors of the relevant Client.

In addition, with respect to certain Clients, the Advisers will hold an annual or semi-annual meeting for their respective investors.

**ITEM 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

**A. Economic Benefits for Providing Services to Clients.**

Other than described herein, the Adviser does not receive economic benefits from non-Clients for providing investment advice and other advisory services.

**B. Compensation to Non-Supervised Persons for Client Referrals.**

Neither the Adviser nor any related person directly or indirectly compensates any person for Client referrals. The Adviser has engaged placement agents to solicit certain types of prospective investors for investments in the Private Funds. The Adviser may in the future enter into additional arrangements with third party placement agents, distributors or others to solicit investors in the Private Funds and such arrangements will generally provide for the compensation of such persons for their services at the Adviser's expense.

## **ITEM 15 CUSTODY**

Rule 206(4)-2 promulgated under the Advisers Act (the “Custody Rule”) (and certain related rules and regulations under the Advisers Act) imposes certain obligations on registered investment advisers that have custody or possession of any funds or securities in which any client has any beneficial interest. An investment adviser is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has the authority to obtain possession of them (regardless of whether the exercise of that authority or ability would be lawful).

The Advisers are required to maintain the funds and securities (except for securities that meet the privately offered securities exemption in the Custody Rule) over which they have custody with a qualified custodian. Qualified custodians include banks, brokers, futures commission merchants and certain foreign financial institutions.

Rule 206(4)-2 imposes on advisers with custody of clients’ funds or securities certain requirements concerning reports to such clients (including underlying investors) and surprise examinations relating to such clients’ funds or securities. However, an adviser need not comply with such requirements with respect to pooled investment vehicles subject to audit and delivery if each pooled investment vehicle (i) is audited at least annually by an independent public accountant and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to their investors, all limited partners, members or other beneficial owners within 120 days (180 days in the applicable case of a fund of fund adviser) of its fiscal year-end. The Advisers rely upon this audit exception with respect to the Clients.

**ITEM 16**  
**INVESTMENT DISCRETION**

The Adviser or an Affiliate has been appointed as the investment manager, management company, manager or general partner of the Clients with discretionary trading and investment authorization. The Adviser or an Affiliate has full discretionary authority with respect to investment decisions, and its advice with respect to the Clients is made in accordance with the investment objectives and guidelines as set forth in such Client's respective private placement memorandum, if any, investment management agreement or other organizational document. The Adviser or an Affiliate assumes discretionary authority to manage the Clients through the execution of investment management agreements or through the organizational documents of Clients. As described above, with respect to one Private Fund, an Affiliate serves as co-manager to such Private Fund with a third party as set forth and described in the organizational and offering documents of such Private Fund.

**ITEM 17**  
**VOTING CLIENT SECURITIES**

The SEC adopted Rule 206(4)-6 under the Advisers Act, which requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. In compliance with such rules, the Advisers have adopted proxy voting policies and procedures (the “Policies”). To the extent practicable in light of their other duties to multiple Clients, the Advisers will seek to vote proxies in a manner consistent with the best interests of each relevant Client. While the decision whether or not to vote a proxy must be made on a case-by-case basis, the Adviser generally does not vote a proxy if it believes the proposal is not adverse to the best interest of the Clients, or, if adverse, the outcome of the vote is not in doubt. In the situations where the Adviser does vote a proxy, the Adviser generally votes the proxy in accordance with specified guidelines. A copy of the Policies and the proxy voting record relating to a Client may be obtained by contacting the Adviser.

**ITEM 18**  
**FINANCIAL INFORMATION**

The Adviser is not required to include a balance sheet for its most recent financial year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to Clients and has not been the subject of a bankruptcy petition at any time during the past ten years.