

# **LIBREMAX**CAPITAL

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## **Item 1. Cover Page**

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### **Part 2A of Form ADV Firm Brochure**

March 29, 2021

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This brochure ("Brochure") provides information about the qualifications and business practices of LibreMax Capital, LLC. If you have any questions about the contents of this Brochure, please contact Investor Relations at (212) 612-1550. This information has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

LibreMax Capital, LLC is an investment adviser registered with the SEC. Additional information about LibreMax Capital, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

**Item 2.**  
**Material Changes**

LibreMax Capital, LLC (the “Adviser”) is required to identify and discuss any material changes made to this Brochure since the last annual update. No material changes were made to this Brochure since the last annual update of this Brochure on March 31, 2020 other than routine updating changes.

The Adviser recommends that you read this Brochure in its entirety. In addition, certain information relating to the overall business of the Adviser may be disclosed in the Form ADV Part 2A brochure for Trimaran Advisers, L.L.C. (“Trimaran”) and Trimaran Asset Management, L.L.C. (“TAM”), which you should read to ensure a full understanding of the Adviser’s business. If the Adviser makes any material changes to this Brochure in the future, this section will be revised to include a summary of such changes.

**Item 3.**  
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#### Item 4. Advisory Business

LibreMax Capital, LLC (the “Adviser”) is a limited liability company formed in Delaware with its principal place of business in New York, New York. The Adviser commenced operations as an investment adviser on October 1, 2010 and has been registered with the Securities and Exchange Commission (the “SEC”) as an investment adviser since March 10, 2011. The Adviser is wholly owned by LibreMax Intermediate Holdings, LP (“LibreMax Holdings”). GKL Holdings, LLC (a holding company that is majority owned by Greg Lippmann) and Fred Brettschneider are the principal underlying owners of LibreMax Holdings.

On December 31, 2018, Trimaran Advisers, L.L.C. (“Trimaran”) and Trimaran Advisors Management, L.L.C. (“TAM”) were acquired by LibreMax Holdings (LibreMax Holdings also acquired Katonah Debt Advisors, L.L.C., but that entity no longer acts as an investment adviser and has withdrawn its registration with the SEC). Both Trimaran and TAM are SEC-registered investment advisers that have claimed registration with the SEC as “relying advisers” of the Adviser. Trimaran and TAM provide investment advisory services on a discretionary basis to unregistered, private investment funds that are each categorized as a “Collateralized Loan Obligation” fund or a “CLO” fund, the portfolios of which are comprised of corporate debt instruments and other similar investments. Trimaran and TAM offer advisory services that differ from those offered by the Adviser, and they have prepared a separate brochure to describe their business line. The Form ADV Part 2A brochure for Trimaran and TAM should be read alongside this Brochure in order to obtain a full understanding of the advisory business of the Adviser and its affiliated advisers.

The Adviser provides investment supervisory services on a discretionary basis to its clients, which include pooled investment vehicles organized or incorporated as U.S. private investment funds (each a U.S. limited partnership) and non-U.S. private investment funds (each a non-U.S. corporation or limited partnership) as well as sub-advisory services to non-U.S. investment funds. Certain of the Adviser’s clients operate in a “master-feeder” structure. The Adviser may, in the future, provide investment advisory services to other types of clients.

The Adviser specializes in securitized and structured financial product investments and credit related instruments. The Adviser’s clients’ investments include, but are not limited to: residential mortgage backed securities and loans, consumer and commercial asset-backed securities and loans, commercial mortgage-backed securities and loans, collateralized loan obligations, collateralized debt obligations, and corporate fixed income obligations and other related securities. Investments in loans may be in the form of participations, assignments and direct purchases of loans. The Adviser’s clients’ investments may also include equity securities, partnership interests and similar financial instruments; currencies; commodities; physical and intangible assets; interest rate, currency, commodity, equity and other derivative products, including (i) futures contracts (and options thereon) relating to stock indices, currencies, U.S. government securities and securities of non-U.S. governments, other financial instruments and all other commodities, (ii) swaps, options, swaptions, warrants, caps, collars, floors and forward rate agreements, (iii) spot and forward currency transactions and (iv) agreements relating to or securing such transactions; mortgage-backed obligations issued or collateralized by U.S. federal agencies; and repurchase and reverse repurchase agreements. For clients organized as private investment funds, the Adviser adheres to the investment strategy and guidelines set forth in each private placement memorandum and/or operating documents for that fund.

The Adviser provides advice to client accounts based on specific investment objectives and strategies. Under certain circumstances, the Adviser may agree to tailor advisory services to the individual needs of clients. The Adviser tailors its advisory services through its management of pooled investment vehicles for institutional investors that generally pursue tailored investment strategies and are subject to certain restrictions.

Clients may impose restrictions on investing in certain securities or certain types of securities.

The Adviser managed approximately \$7,788,700,000 of client assets on a discretionary basis and \$200,300,000 on a non-discretionary basis, each rounded to the nearest \$100,000 and as of March 1, 2021. (This calculation is estimated and based on the aggregate net asset value of the Adviser's, Trimaran's and TAM's various client accounts, and may differ from the amounts reported as "regulatory assets under management" in Item 5.F of Part 1A.).

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## Item 5. Fees and Compensation

### Advisory Fees and Compensation.

**Asset-Based Compensation.** The Adviser charges each client an investment management fee based on the value of the client's assets under management (as an annual percentage of assets) of up to 2.0%. Asset-based fees received from any non-fund clients will be set forth in the agreements entered into with such clients.

Investment management fees are:

- charged each month in advance based on the net market value of the assets in the client account (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest) on the first day of the month, or
- charged each month in advance based on the fair market value of the assets in the client account (including unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest) on the first day of the month.

The investment management fee will be prorated if a new client account is established or terminated during a month or quarter, as appropriate, or a client makes an addition to or a withdrawal from its account during a month or quarter, as appropriate.

These fees are negotiable and are typically waived or reduced for the Adviser and its members, employees and affiliates, relatives of such persons, and for certain large or strategic investors.

**Performance-Based Compensation.** The Adviser will be paid a performance-based allocation from certain clients, which is compensation that is based on a share of capital gains on or capital appreciation of the assets of the client (such as a client that is a hedge fund or other pooled investment vehicle) of up to 20%. This compensation may be paid to the Adviser or to a related person of the Adviser. Under certain circumstances, receipt of performance-based compensation may be subject to a hurdle rate (which may be calculated as a fixed rate or a spread over a floating rate, such as LIBOR) or a preferred return.

These fees are negotiable and are typically waived or reduced for the Adviser and its members, employees and affiliates, relatives of such persons, and for certain large or strategic investors.

**Payment of Fees.** The Adviser deducts the investment management fee from client accounts by instructing the client's custodian. The Adviser deducts client accounts for investment management fees monthly.

**Other Fees and Expenses.** In addition to paying investment management fees and, if applicable, performance-based fees or other compensation, client accounts will also be subject to other investment expenses such as:

- costs and expenses incurred in connection with a fund's formation and qualification, and the offering and sale of fund interests, including, but not limited to, legal and accounting fees and expenses, registration fees, filing fees, printing costs, marketing expenses (including travel expenses), 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;
- expenses related to the research, financing (including amounts borrowed pursuant to a commitment facility, if applicable), due diligence, monitoring and disposition of actual and prospective portfolio investments (whether or not consummated) and the consummation of portfolio

investments, including the following: third-party investment sourcing fees (including performance-based fees); fees and expenses related to obtaining research and market data (including third-party research, advisers and consultants, news and quotation equipment and services, and fees for providers of market and portfolio data and software, including any information technology hardware, software or other technology incorporated into the cost of obtaining such research and market data (e.g., Bloomberg terminals)); due diligence expenses, including consulting and appraisal fees; travel expenses; brokerage, prime brokerage and futures commission merchant fees, commissions and expenses; expenses relating to block trades; expenses relating to reorganizations, restructurings and workouts; clearing and settlement charges; costs associated with foreign exchange transactions; custodial fees and expenses; bank service fees; interest expenses and fees related to financings or refinancings; fees and expenses of proxy research and voting services; and fees and expenses of third-party professionals, including consultants, investment bankers, attorneys and accountants;

- operational expenses, including the following: fees and expenses relating to information technology hardware, software or other technology, such as Bloomberg terminals, (including costs of software licensing, implementation, data management and recovery services and custom development) used to research portfolio investments, evaluate and manage risk, facilitate valuations, facilitate accounting functions, facilitate compliance with the rules of any self-regulatory organization or applicable law (including reporting obligations), facilitate and manage the order execution of portfolio investments or any trading vehicle or otherwise manage a fund or any trading vehicle; fees and expenses of third-party risk management products, models and services; third-party administrative fees and expenses; fees and expenses of third-party professionals, including consultants, valuation service providers, attorneys and accountants; the costs of any litigation or investigation involving activities of a fund or any trading vehicle (including potential and actual portfolio investments); third-party audit and tax preparation expenses; insurance expenses, including premiums for cybersecurity insurance and liability insurance covering the Adviser and the members, partners, officers, employees and agents of any of them; fees and expenses of a fund's and any trading vehicle's directors and officers; costs of holding any meetings of investors; costs of preparing and distributing reports and notices; taxes; expenses incurred in connection with negotiating and complying with provisions of any side letter agreement; fees and expenses related to compliance with the rules of any self-regulatory organization or applicable law in connection with the activities of a fund or any trading vehicle, including any governmental, regulatory, licensing, filing or registration fees or taxes (including fees and expenses incurred in connection with the preparation and filing of Form PF, Section 13 filings, Section 16 filings and other similar regulatory filings); expenses incurred in connection with the offering and sale of fund interests and other similar expenses related to the fund; extraordinary expenses, including the following: indemnification expenses; fees and expenses incurred in connection with any tax audit by any taxing authority, including any related administrative settlement and judicial review; and fees and expenses incurred in connection with the reorganization, dissolution, winding-up or termination of a fund or any trading vehicle.

Client assets may be invested in money market mutual funds, ETFs or other registered investment companies. In these cases, the client will bear its pro rata share of the investment management fee and other fees of the fund, which are in addition to the investment management fee paid to the Adviser. As described in Item 4, in order to achieve its investment objective, a client may invest all of its investable assets through a master-feeder structure. Feeder funds bear a pro rata share of the expenses associated with the related master fund. In addition, clients will incur brokerage and other transaction costs. Please refer to Item 12 of this Brochure for a discussion of the Adviser's brokerage practices.

While each client bears its own expenses, expenses borne by one client may differ from the expenses borne by another client. In certain instances, a client may bear expenses that the Adviser or its affiliates have themselves agreed to bear on behalf of one or more other clients. Expense policies and practices of the Adviser or of the Adviser's clients often differ (and may materially differ) from those of Trimaran and TAM.

Expenses frequently will be incurred on behalf of one or more clients of the Adviser and its affiliates, including the clients of Trimaran and TAM. The Adviser and its affiliates seek to allocate those common expenses among the clients in a manner that is fair and reasonable over time. However, expense allocation decisions will involve potential conflicts of interest (e.g., an incentive to favor accounts that pay higher incentive fees, or conflicts relating to different expense arrangements with certain clients). The Adviser may use various methods to allocate particular expenses among the clients depending on the circumstances (e.g., pro rata based on assets under management, relative participation in the transaction related to the expense, general amount of trading activity, etc.) and those allocation methodologies themselves may be subject to conflicts of interest on behalf of the Adviser. The determination as to the method or methods used may be based on relative scope of the product or service, the time frame of service, the investment strategy, the relative benefits derived by the clients from the product or service, or other relevant factors. Nonetheless, clients should note that the portion of a common expense that the Adviser allocates to the client for a particular product or service may not reflect the relative benefit derived by the client from that product or service in any particular instance. The Adviser's expense allocations often depend on inherently subjective determinations and, accordingly, expense allocations made by the Adviser in good faith will be final and binding on the clients.



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

The Adviser and its investment personnel provide investment management services to multiple portfolios for multiple clients. The Adviser is entitled to be paid performance-based compensation by certain private pooled investment vehicle clients. In addition, certain client accounts may have higher asset-based fees or more favorable performance-based compensation arrangements than other accounts. This performance-based compensation may create an incentive for the Adviser to direct the best investment ideas to, or to allocate or sequence trades in favor of, (i) accounts with performance compensation arrangements over accounts that are not charged, or from which the Adviser or its affiliates will not receive, performance compensation, and (ii) accounts from which the Adviser or its affiliates will receive a greater performance compensation over accounts from which the Adviser or its affiliates will receive lesser performance compensation. Additionally, performance-based compensation may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case if a performance-based compensation arrangement were not in effect.

Further, performance-based compensation may create an incentive for the Adviser to time investments, and the realization of investments, so as to maximize the performance-based compensation rather than the return of the accounts. For example, tax law could create an incentive for the Adviser to cause an account to hold securities longer in order for the general partner of a partnership to receive “long-term capital gain” tax rates with respect to its performance-based compensation (which may differ from the tax outcomes for U.S. taxable investors, and will differ from the impact on investors who are not subject to U.S. income taxation). This dichotomy creates a potential conflict between the interests of the general partner of a partnership and the interests of other direct and indirect investors in such partnership.

The Adviser has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. The Adviser reviews investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed accounts is also regularly compared to determine whether there are any unexplained significant discrepancies. In addition, the Adviser's procedures relating to the allocation of investment opportunities require that similarly managed accounts generally participate in investment opportunities according to a preset asset class percentage weighting model, in the absence of certain other factors, and require that, to the extent orders are aggregated, the client orders are price-averaged. Finally, the Adviser's procedures also require the objective allocation for limited opportunities (such as initial public offerings and private placements) to ensure fair and equitable allocation, over time, among accounts. These areas are monitored by the Adviser's Legal and Compliance Department and Risk Management Committee.

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**Item 7. Types of Clients**

The Adviser provides advisory services to private investment funds and sub-advisory services to non-U.S. investment funds and may, in the future, provide advisory services to other types of clients. Investors in the private investment funds may include institutional investors, pension and profit sharing plans, trusts, estates, charitable organizations, high net worth individuals, private investment funds, corporations and other business entities.

With respect to any client that is organized as a private investment fund, any initial and additional subscription minimums are disclosed in the private investment fund's offering documents or operating agreements.

The Adviser may offer certain investors or clients the opportunity to co-invest with clients in certain investments in which the amount available for investment exceeds the amount the Adviser believes should be invested by clients. The Adviser is not obligated to arrange co-investment opportunities for all investors, and investors generally will not be entitled or have any right to participate in such an opportunity solely by reason of being an investor. The Adviser's decision to offer, or not offer, co-investment opportunities will be made in its sole discretion, taking into account the best interest of clients while maintaining a flexible approach. Fees and expenses incurred in respect of any investment will generally be allocated among the clients and any co-investors on the basis of capital committed, provided that in certain cases co-investors may not bear a share of expenses for investments that are not consummated, in which case the clients participating in the investment will bear the entirety of such expenses.

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

**Methods of Analysis and Investment Strategies.** The Adviser utilizes a variety of methods and strategies to make investment decisions and recommendations. The Adviser's investment strategy is focused on investing in securitized products and credit instruments. To pursue this investment strategy, the Adviser's methods of analysis include an extensive micro-credit analysis as well as use of technical analytical tools and approaches.

The Adviser conducts a comprehensive analysis of the following key factors as part of its overall investment process:

**Macro-economic.** The Adviser engages in a macro-economic analysis wherein the Adviser attempts to anticipate macroeconomic events which encompasses an analysis of long or short risk and increased or shortened duration views. The Adviser will seek to use market information to carefully establish likely impacts of anticipated changes in the macro-economy, regulatory and legal environment on portfolio holdings and adjust those holdings accordingly.

**Micro-credit.** The Adviser has developed proprietary analytical models that utilize loan level mortgage information and high resolution home price index data in conjunction with cash flow projections on securities to assist the portfolio management team in analyzing potential upside and risk of each position held in a portfolio or being considered for purchase. Such micro-credit analysis may include expected average life, duration, yield and write-down projections on structured securities.

**Hedging.** The Adviser may utilize a variety of financial instruments such as derivatives, options, interest rate swaps, caps and floors, futures and forward contracts for risk management purposes.

**Leverage.** The Adviser's investment program utilizes a significant amount of leverage which involves the borrowing of funds from brokerage firms, banks and other institutions, primarily through repurchase transactions and committed financing facilities, in order to be able to increase the amount of capital available for marketable securities investments.

**Short Selling.** The Adviser may engage in short selling strategies. In a short sale transaction, the Adviser sells a security it does not own in anticipation that the market price of that security will decline. The Adviser makes short sales (i) as a form of hedging to offset potential declines in long positions in similar securities, (ii) in order to maintain flexibility, and (iii) for profit.

These method(s), strategies and investments involve(s) risk of loss to clients and clients must be prepared to bear the loss of their entire contribution/investment.

### **Material Risks (Including Significant, or Unusual Risks) Relating to Investment Strategies.**

The following risk factors include those risks that the Adviser believes to be material, significant or unusual related to the securities that may be utilized by the Adviser and is not intend to be a complete list of all the risks associated with the Adviser's investment strategies. Before making an investment with any of the Adviser's clients, prospective investors should read the offering documents of the applicable client for detailed risk disclosures that address the specific risks associated with that fund's investment strategy. An investment with the Adviser or one if its clients involves significant risks and is suitable only for those persons who can bear the economic risks of the loss of their entire investment and who have limited need for liquidity in their investment.

**Long-Term.** The success of a client's long-term investment strategy depends upon the Adviser's ability to identify and purchase securities that are undervalued and hold such investments so as to maximize value on a long-term basis. In pursuing any long-term strategy, a client may forego value in the short-term or

temporary investments in order to be able to avail the client of additional and/or longer-term opportunities in the future. Consequently, a client may not capture maximum available value in the short-term.

*Issuer-Specific Changes.* Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's value. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Smaller issuers can have more limited product lines, markets, or financial resources.

*Short-Term Market Considerations.* The Adviser's trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading related expenses.

### *Leverage and Borrowing*

*Leverage for Investment Purposes.* The use of leverage will allow a client to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of a client's portfolio. The effect of the use of leverage by a client in a market that moves adversely to its investments could result in substantial losses to such client, which would be greater than if the client were not leveraged.

*Borrowing for Cash Management Purposes.* Certain clients have the authority to borrow for cash management purposes. The rates at and terms on which a client can borrow will affect the operating results of such client.

*Collateral.* The instruments and borrowings utilized by a client to leverage investments may be collateralized by all or a portion of such client's portfolio. Accordingly, a client may pledge its securities in order to borrow or otherwise obtain leverage for investment or other purposes. Should the securities pledged to brokers to secure the client's margin accounts decline in value, the client could be subject to a "margin call", pursuant to which the client must either deposit additional funds or securities with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. The banks and dealers that provide financing to the client can apply essentially discretionary margin, "haircut", financing and collateral valuation policies. Changes by counterparties in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. Lenders that provide other types of asset-based or secured financing to the client may have similar rights. There can be no assurance that a client will be able to secure or maintain adequate financing.

*Costs.* Borrowings will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on a client's portfolio.

*Diversification and Concentration.* The Adviser may select investments that are concentrated in a limited number or types of securities. In addition, a client's portfolio may become significantly concentrated in securities related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose the client to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such securities.

*Lack of Control.* Clients may invest in debt instruments and equity securities of companies that they do not control, which a client may acquire through market transactions or through purchases of securities directly from the issuer or other shareholders. Such securities will be subject to the risk that the issuer may make business, financial or management decisions with which a client does 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, a client may share control over certain investments with co-investors, which may make it more difficult for such client to implement its investment approach or exit the investment when it otherwise would. The occurrence of any of the foregoing could have a material adverse effect on a client's portfolio.

**Potential Interest Rate Increases.** The United States has experienced a decade-long period of historically low interest rate levels. Any future interest rate increases may result in periods of volatility and cause the value of the fixed income securities held by the portfolio to decrease, which, in turn, may force the portfolio to liquidate such securities at disadvantageous prices negatively impacting the performance of the portfolio.

**Hedging Transactions.** The Adviser may cause a client to utilize securities for risk management purposes in order to: (i) protect against possible changes in the market value of such client's investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect unrealized gains in the value of such client's investment portfolio; (iii) facilitate the sale of any securities; (iv) enhance or preserve returns, spreads or gains on any security in such client's portfolio; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of such client's securities; (vii) protect against any increase in the price of any securities a client anticipates purchasing at a later date; or (viii) act for any other reason that the Adviser deems appropriate. The Adviser will not be required to cause a client to hedge any particular risk in connection with a particular transaction or its portfolio generally. The Adviser may be unable to anticipate the occurrence of a particular risk and, therefore, may be unable to attempt to hedge against it. While a client may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the client than if it had not engaged in any such hedging transaction. Moreover, a client's portfolio will always be exposed to certain risks that cannot be hedged.

**Short Selling Risk.** The Adviser's investment program includes short selling. Short selling transactions expose the Adviser to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by the Adviser in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein the Adviser might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

***Risks Associated with Types of Securities that are Primarily Recommended (Including Significant, or Unusual Risks).***

**Structured Notes.** Structured notes, variable rate mortgage-backed and asset-backed securities each have rates of interest that vary based on a designated floating rate formula or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. The movements in specific indices or interest rates may be difficult or impossible to hedge.

**Collateralized Debt Obligations.** There are a variety of different types of collateralized debt obligations ("CDOs"), including CDOs collateralized by trust preferred securities and asset-backed securities and CDOs collateralized by corporate loans and debt securities called collateralized loan obligations ("CLOs"). CDOs may issue several types of securities, including CDO and CLO equity, multi-sector CDO equity, trust preferred CDO equity and CLO debt. CDOs are subject to credit, liquidity and interest rate risks, which are each discussed in greater detail above. The CDO equity may be unrated or non-investment grade. As a holder of CDO equity, a client will have limited remedies available upon the default of the CDO. A client may be unable to find a sufficient number of attractive opportunities to meet its investment objective or fully invest its committed capital. For example, from time to time, the market for CDO transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. CDOs often invest in concentrated portfolios of assets. The concentration of an

underlying portfolio in any one obligor would subject the related CDOs to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the related CDOs to a greater degree of risk with respect to economic downturns relating to such industry.

The value of CDOs generally fluctuates with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("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 in respect thereof. 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, asset-backed securities and other securities, which often are rated below investment grade (or of equivalent credit quality). High-yield debt securities generally are unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. 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 or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative.

*Subordination of CDO Debt and CDO Equity.* Subordinate CDO debt generally is fully subordinated to the related CDO senior tranches. CDO equity generally is fully subordinated to any related CDO debt and is not secured by any collateral. Distributions to holders of CDO equity will generally be made solely from distributions on the assets of the CDO issuer after all other payments have been made pursuant to the priority of payments of such CDO. To the extent that any losses are incurred by a CDO in respect of its related CDO Collateral, such losses will be borne first by the holders of the related CDO equity, next by the holders of any related subordinated CDO debt and finally by the holders of the related CDO senior tranches. In addition, if an event of default occurs under the governing instrument or underlying investment, as long as any CDO senior tranches are outstanding, the holders thereof generally will be entitled to determine the remedies to be exercised under the instrument governing the CDO. Remedies pursued by such holders could be adverse to the interests of the holders of any related subordinated CDO debt and/or the holders of the related CDO equity, as applicable. Subordinate CDO debt and CDO equity represent leveraged investments in the assets of the CDO. Therefore, the leveraged nature of such securities may magnify the adverse impact on the market value of such securities caused by changes affecting the assets underlying such securities, including changes in the market value of such assets, changes in distributions on such assets, defaults and recoveries, capital gains and losses on such assets, prepayments and the availability, prices and interest rates of such assets. Accordingly, subordinate CDO debt and CDO equity may not be paid in full and may be subject to up to 100% loss.

*Control by Senior CDO Debt.* In a typical CDO, the most senior CDO debt (the "Controlling Class") will control many rights under the CDO indenture and therefore, holders of subordinate CDO debt and CDO equity will have limited rights in connection with an event of default or distributions thereunder. Remedies pursued by the holders of the Controlling Class upon an event of default could be adverse to the interests of the holders of subordinate CDO debt and CDO equity. If an event of default has occurred and is continuing, the holders of CDO equity will not have any creditors' rights against the CDO issuer and will not have the right to determine the remedies to be exercised under the CDO indenture. There is no guarantee that any funds will remain to make distributions to the holders of subordinate CDO debt and CDO equity following any liquidation of the CDO assets and the application of the proceeds from the CDO assets to pay senior classes of CDO debt and the fees, expenses, and other liabilities payable by the CDO issuer. The Controlling Class may also have consent rights in respect of amendments and CDO manager removal rights in connection with certain events.

*Mandatory Redemption of CDO Senior Tranches and CDO Debt.* Under certain circumstances, cash flows from CDO Collateral that otherwise would have been paid to the holders of any related

CDO debt and the related CDO equity will be used to redeem the related CDO senior tranches. This could result in an elimination, deferral or reduction in the interest payments, principal repayments or other payments made to the holders of such CDO debt or such CDO equity, which could adversely impact the returns to the holders of such CDO debt or such CDO equity.

*Optional Redemption of CDO Senior Tranches and CDO Debt.* An optional redemption of a CDO could require the collateral or portfolio manager of the related CDO to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the items of CDO Collateral sold (and which in turn could adversely impact the holders of any related CDO debt, and/or the holders of the related CDO equity).

*Rating Agencies.* Future actions of any rating agency can adversely affect the market value or liquidity of CDOs. Rating agencies rating a CDO may change their published ratings criteria or methodologies for CDOs at any time in the future. Further, such rating agencies may retroactively apply any such new standards to the ratings of the CDO securities purchased by a client. Any such action could result in a substantial lowering (or even withdrawal) of any rating assigned to any such CDO security, despite the fact that such CDO security might still be performing fully to the specifications set forth for such CDO security in the related transaction documents. The rating assigned to any CDO may also be lowered following the occurrence of an event or circumstance despite the fact that the related rating agency previously provided confirmation that such occurrence would not result in the rating of such CDO being lowered. Additionally, any rating agency may, at any time and without any change in its published ratings criteria or methodology, lower or withdraw any rating assigned by it to any class of CDO security. If any rating initially assigned to any CDO security is subsequently lowered or withdrawn for any reason, holders of such security may not be able to resell their security without a substantial discount. Any reduction or withdrawal to the ratings on any class of CDO security may significantly reduce the liquidity thereof and may adversely affect the CDO issuer's ability to make certain changes to the composition of the CDO assets since the CDO's indenture may contain restrictions on portfolio modifications that are tied to the ratings on the CDO's securities.

A rating agency may also revise or withdraw its ratings of a CDO security as a result of a failure by the issuer or the manager of such CDO to provide it with information requested by such rating agency or comply with any of its obligations contained in the engagement letter with such rating agency, including the posting of information provided to the rating agency on a website that is accessible by rating agencies that were not hired in connection with the issuance of the CDO securities as required by law. In addition, a CDO security may receive an unsolicited rating, which may have an adverse effect on the liquidity or the market price of such CDO security. Any such revision or withdrawal of a rating as a result of such a failure might adversely affect the liquidity and value of the CDO security.

*Warehouse Agreements.* Clients may enter into warehouse agreements ("Warehouse Agreements") with certain collateral managers, including the Adviser. Pursuant to such Warehouse Agreements, a client may provide financing, either directly or indirectly, for the purchase of assets, or may own certain assets ("Warehouse Securities") in anticipation of such assets constituting the collateral of a CDO or other structured transaction (a "Structured Transaction"). Upon the closing of the Structured Transaction to which the Warehouse Agreement relates, the client may or may not purchase securities issued in such Structured Transaction. The client may not achieve its investment objective in financing the warehouse if the Warehouse Securities are not purchased in the Structured Transaction or where the Structured Transaction fails to close. A collateral manager will purchase Warehouse Securities from the warehouse for a Structured Transaction only to the extent that the collateral manager determines that such purchases are consistent with the investment guidelines of the Structured Transaction, the restrictions contained in the collateral management agreement and applicable law. If Warehouse Securities are not purchased for a Structured Transaction, depending on the terms of the Warehouse Agreement, Warehouse Securities may be liquidated, which may result in a profit or a loss to the client, or the client may take possession of the Warehouse Securities. In either case, the client will bear the risk that the

value of such Warehouse Securities may be below their purchase price. If a Structured Transaction fails to close, in addition to the foregoing risks, the client may not be paid for financing the warehouse facility.

*Effects of Regulation on CDO Market.* Legislative or regulatory action taken by the U.S. federal government or any U.S. regulatory body (or other authority or regulatory body) in response to economic conditions or otherwise may negatively impact the liquidity and value of CDOs.

*Debt Securities.* Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

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

*Interest Rate Risk.* Changes in interest rates can affect the value of a client's investments in fixed-income instruments. Increases in interest rates may cause the value of a client's debt investments to decline. A client may experience increased interest rate risk to the extent it invests, if at all, in lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

*Prepayment Risk.* The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact a client in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Adviser may have constructed for these investments, resulting in a loss to a client's overall portfolio. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

*Zero-Coupon and Deferred Interest Bonds.* Zero-coupon bonds and deferred interest bonds are debt obligations issued at a significant discount from face value. The original discount



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

*High-Yield.* Bonds or other fixed-income securities that are “higher yielding” (including non-investment grade) debt securities are generally not exchange-traded and, as a result, these securities trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer’s inability to meet timely interest and principal payments. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer’s assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing. In addition, a client may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments.

A client may invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuer’s obligations. Such investments may include debt obligations that have a heightened probability of being in covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted security for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

*ABS and MBS Generally.* The investment characteristics of asset-backed securities (“ABS”) and mortgage-backed securities (“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.

*ABS and MBS Subordinated Securities.* Investments in subordinated MBS and ABS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further 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. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the attributes typically associated with equity investments.

*Commercial MBS.* 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 and repayment of the loan principal thus 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 nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower’s assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the

principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related MBS. Revenues from the assets underlying such MBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court appointed receiver to control collateral cash flow.

**ABS.** ABS are not secured by an interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of U.S. federal and state consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. 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 vehicles 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 any 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.

**RMBS.** Holders of residential mortgage-backed securities ("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. 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. 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.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool

of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so called “jumbo” mortgage loans, having original principal balances that are higher than Fannie Mae and Freddie Mac loan balance limitations. As a result, such portfolio of RMBS may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates, conditions in credit markets and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

Prepayments on the underlying residential mortgage loans backing an issue of RMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. 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.

Certain mortgage loans may be of subprime credit quality (i.e., do not meet the customary credit standards of Fannie Mae and Freddie Mac). Originators of loans make subprime mortgage loans to borrowers that typically have limited access to traditional mortgage financing for a variety of reasons, including impaired or limited past credit history, lower credit scores, high loan-to-value ratios or high debt-to-income ratios. As a result of these factors, delinquencies and liquidation proceedings are more likely with subprime mortgage loans than with mortgage loans that satisfy customary credit standards. In the event mortgage loans in a mortgage pool related to a residential security become delinquent or subject to liquidation, the related CDO may experience delays in receiving payment on such RMBS and may suffer losses if the related credit enhancements, if any, are insufficient to cover the delays and losses associated with such RMBS. The RMBS also may be backed by non-conforming mortgage loans that do not qualify for purchase by government-sponsored agencies, such as Fannie Mae and Freddie Mac, because of characteristics and size that do not satisfy Fannie Mae and Freddie Mac guidelines. Non-conforming mortgage loans are likely to experience rates of delinquency, foreclosure and loss that are higher, and that may be substantially higher, than mortgage loans originated in accordance with Fannie Mae or Freddie Mac underwriting guidelines. The principal differences between conforming mortgage loans and non-conforming mortgage loans include the applicable loan-to-value ratios, the credit and income histories of the related mortgagors, the documentation required for approval of the related mortgage loans, the types of properties securing the mortgage loans, the loan sizes and the mortgagors' occupancy status with respect to the mortgaged properties. As a result of these and other factors, the interest rates charged on non-conforming mortgage loans are often higher than those charged for conforming mortgage loans. The combination of different underwriting criteria and higher rates of interest may also lead to higher delinquency, foreclosure and losses on non-conforming mortgage loans as compared to conforming mortgage loans.

RMBS may contain certain credit enhancement features intended to enhance the likelihood that holders of such securities will receive regular payments of interest and principal. If delinquencies or defaults occur on the mortgage loans underlying such RMBS, neither the related servicers nor any other entities will advance scheduled monthly payments of interest and principal on delinquent or defaulted mortgage loans if such advances are not likely to be recovered within those transactions. There can be no assurance that the credit enhancement, if any, applicable to RMBS owned by a CDO will adequately cover any shortfalls in cash available to make payments on such RMBS as a result of such delinquencies or defaults. If substantial losses occur as a result of defaults and delinquent payments on the mortgage loans, a client may suffer losses with respect to its ownership of such RMBS (or CDOs which own RMBS).

The residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions that may adversely affect the performance and market value of RMBS and CDOs backed by RMBS. Delinquencies and losses with respect to residential mortgage loans generally have increased in recent months, and may continue to increase, particularly in the subprime sector. In addition, in recent months housing prices and appraisal values in many states have declined or stopped appreciating. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on RMBS generally.

Another factor that may result in higher delinquency rates is the increase in monthly payments on adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate. 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. These events, alone or in combination, may contribute to higher delinquency rates and, as a result, adversely affect the performance and market value of RMBS and CDOs backed by RMBS.

In addition, numerous residential mortgage loan originators that originate subprime mortgage loans have experienced serious financial difficulties and, in some cases, bankruptcy. Those difficulties have resulted in part from declining markets for mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults, or for material breaches of representations and warranties made on the mortgage loans, such as fraud claims. These difficulties may adversely affect the performance and market value of RMBS originated, serviced or subserviced by these companies. As a result, the performance and market value of CDOs backed by RMBS also may be adversely affected.

The mortgage loans underlying certain of the RMBS 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 monthly payments are not enough to cover both the interest and principal payments on the loan, the shortfall is added to the principal balance, causing the loan balance to increase rather than decrease over time. During periods in which the outstanding principal balance of any such mortgage loan is increasing due to the addition of deferred interest, the increasing principal balance of such mortgage loan may approach or exceed the value of the related mortgage property, thus increasing the likelihood of defaults as well as the amount of any loss experienced with respect to any such mortgage loan that is required to be liquidated. Furthermore, each such mortgage loan generally provides for the payment of any remaining unamortized principal balance (due to the addition of deferred interest, if any, to the principal balance of such mortgage loan) in a single payment at the maturity of the loan. Because the related mortgagors may be required to make a larger single payment upon maturity, it is possible that the default risk associated with such mortgage loans is greater than that

associated with fully amortizing mortgage loans. If the pool of mortgage loans underlying any RMBS owned by a client (or a CDO backed by RMBS) were to contain loans with negative amortization features, the yield on such RMBS could be adversely affected.

RMBS have structural characteristics that distinguish them from other asset-backed securities. The rate of interest payable on RMBS is often set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an “available funds cap”. Other factors, such as the use of interest rate derivatives, may also affect the returns on RMBS. The U.S. Servicemembers’ Civil Relief Act of 2003, as amended (the “Relief Act”), provides relief to mortgagors who enter into active military service or who were on reserve status but are called to active duty after the origination of their mortgage loans. Under the Relief Act, during the period of a mortgagor’s active duty, the rate of interest that may be charged on such mortgagor’s loan will be capped at a rate of 6% per annum, which may be below the interest rate that would otherwise have been applicable to such mortgage loan. In light of current United States involvement in Iraq and Afghanistan, a number of mortgage loans in the mortgage pools underlying RMBS are or may become subject to the Relief Act. As a result, the weighted average interest rate on RMBS may be reduced. If such RMBS are subject to weighted average net coupon caps, investors’ return on their investment in such RMBS will be similarly affected.

Violations of consumer protection laws may result in losses on RMBS. Applicable state laws generally regulate interest rates and other charges, require licensing of originators and require specific disclosures. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the loans backing RMBS. Depending on the provisions of the applicable law and the specific facts and circumstances involved, violations of these laws, policies and principles may limit the ability of the issuer of a RMBS to collect all or part of the principal of or interest on the underlying loans, may entitle a borrower to a refund of amounts previously paid and, in addition, could subject the owner of a mortgage loan to damages and administrative enforcement.

The mortgage loans backing a RMBS also are subject to U.S. federal laws, including:

- the U.S. Truth in Lending Act and Regulation Z promulgated under the Truth in Lending Act, which require particular disclosures to the borrowers regarding the terms of the loans;
- the Equal Credit Opportunity Act and Regulation B promulgated under the Equal Credit Opportunity Act, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;
- the Americans with Disabilities Act, which, among other things, prohibits discrimination on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of any place of public accommodation;
- the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower’s credit experience;
- the Home Ownership and Equity Protection Act of 1994, which regulates the origination of high cost loans;
- the Depository Institutions Deregulation and Monetary Control Act of 1980, which preempts certain state usury laws; and

- the Alternative Mortgage Transaction Parity Act of 1982, which preempts certain state lending laws which regulate alternative mortgage transactions.

Violations of particular provisions of these U.S. federal laws may limit the ability of the issuer of RMBS to collect all or part of the principal of or interest on the related underlying loans and in addition could subject such issuer to damages and administrative enforcement. In this event, the issuer, as a holder of such RMBS may suffer a loss.

Some of the mortgages loans backing a RMBS may have been underwritten with, and finance the cost of, credit insurance. From time to time, originators of mortgage loans that finance the cost of credit insurance have been named in legal actions brought by U.S. federal and state regulatory authorities alleging that certain practices employed relating to the sale of credit insurance constitute violations of law. If such an action were brought against such issuer with respect to mortgage loans backing such RMBS and were successful, it is possible that the borrower could be entitled to refunds of amounts previously paid or that such issuer could be subject to damages and administrative enforcement.

In addition, numerous U.S. federal and state statutory provisions, including the U.S. federal bankruptcy laws, the Relief Act and state debtor relief laws, also may adversely affect the ability of an issuer of a RMBS to collect the principal of or interest on the loans, and holders of the affected RMBS may suffer a loss if the applicable laws result in these loans becoming uncollectible.

In addition to the U.S. federal laws described above, however, a number of legislative proposals have been introduced at the U.S. federal, state and municipal levels that are designed to discourage predatory lending practices. Some states have enacted, or may enact, laws or regulations that prohibit inclusion of some provisions in mortgage loans that have mortgage rates or origination costs in excess of prescribed levels, and require that borrowers be given certain disclosures prior to the consummation of such mortgage loans. In some cases, state law may impose requirements and restrictions greater than those in the Homeownership Act. An originator's failure to comply with these laws could subject the issuer of a RMBS to monetary penalties and could result in the borrowers rescinding the loans underlying such RMBS. Lawsuits have been brought in various states making claims against assignees of high cost loans for violations of state law. Named defendants in these cases include numerous participants within the secondary mortgage market, including some securitization trusts.

*Equity Securities Generally.* The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, a client may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Adviser's expectations or if equity markets generally move in a single direction and the client has not hedged against such a general move. A client also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

*Derivative Instruments.* 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 such client.

*Regulation in the Derivatives Industry.* There are many rules related to derivatives that may negatively impact a client, such as requirements related to recordkeeping, reporting, portfolio reconciliation, central clearing, minimum margin for uncleared over-the-counter ("OTC") instruments and mandatory trading on electronic facilities, and other transaction-level obligations. Parties that act as dealers in swaps, are also subject to extensive business conduct standards, additional "know your counterparty" obligations, documentation standards and capital requirements. All of these requirements add costs to the legal, operational and compliance

obligations of the Adviser and a client, and increase the amount of time that the Adviser spends on non-investment-related activities. Requirements such as these also raise the costs of entering into derivative transactions, and these increased costs will likely be passed on to a client.

These rules are operationally and technologically burdensome for the Adviser and a client. These compliance obligations require employee training and use of technology, and there are operational risks borne by a client in implementing procedures to comply with many of these additional obligations.

These regulations may also result in a client forgoing the use of certain trading counterparties (such as broker-dealers and futures commission merchants ("FCMs")), as the use of other parties may be more efficient for such client from a regulatory perspective. However, this could limit such client's trading activities, create losses, preclude the client from engaging in certain transactions or prevent the client from trading at optimal rates and terms.

*Call and Put Options.* A client may incur risks associated with the sale and purchase of call options and put options. Under a conventional cash-settled option, the purchaser of the option pays a premium in exchange for the right to receive upon exercise of the option (i) in the case of a call option, the excess, if any, of the reference price or value of the underlier (as determined pursuant to the terms of the option) above the option's strike price or (ii) in the case of a put option, the excess, if any, of the option's strike price above the reference price or value of the underlier (as so determined). Under a conventional physically-settled option structure, the purchaser of a call option has the right to purchase a specified quantity of the underlier at the strike price, and the purchaser of a put option has the right to sell a specified quantity of the underlier at the strike price.

A purchaser of an option may suffer a total loss of premium (plus transaction costs) if that option expires without being exercised. An option's time value (i.e., the component of the option's value that exceeds the in-the-money amount) tends to diminish over time. Even though an option may be in-the-money to the purchaser at various times prior to its expiration date, the purchaser's ability to realize the value of an option depends on when and how the option may be exercised. For example, the terms of the transaction may provide for the option to be exercised automatically if it is in-the-money on the expiration date. Conversely, the terms may require timely delivery of a notice of exercise, and exercise may be subject to other conditions (such as the occurrence or non-occurrence of certain events, such as knock-in, knock-out or other barrier events) and timing requirements, including the "style" of the option.

Uncovered option writing (i.e., selling an option when the seller does not own a like quantity of an offsetting position in the underlier) exposes the seller to potentially significant loss. The potential loss of uncovered call writing is unlimited. The seller of an uncovered call may incur large losses if the reference price or value of the underlier increases above the exercise price by more than the amount of any premiums earned. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The seller of an uncovered put option bears a risk of loss if the reference price or value of the underlier declines below the exercise price by more than the amount of any premiums earned. Such loss could be substantial if there is a significant decline in the value of the underlier.

*Index or Index Options.* The value of an index or index option fluctuates with changes in the market values of the assets included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular asset, whether a client will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the assets generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular assets.

*Index Futures.* The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting

additional margin deposit requirements, participants may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts by a client also is subject to the Adviser's ability to correctly predict movements in the direction of the market.

*Credit Default Swaps.* Credit default swaps can be used to implement the Adviser's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, a client may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the client to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. A client may also buy credit default protection with respect to a referenced entity if, in the Adviser's judgment, there is a high likelihood of credit deterioration. In such instance, the client will pay a premium regardless of whether there is a credit event.

*Futures Contracts.* The value of futures contracts depends upon the price of the securities, such as commodities, underlying them. 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 a client's positions trade or of its clearing houses or counterparties. Futures positions may be illiquid because certain commodity 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 the client to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. 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.

*Non-U.S. Futures Transactions.* Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally "linked" to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign exchange or the laws of the foreign country. Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, a client may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures. In particular, funds received from customers to margin foreign futures transactions may not be provided the same protections as funds received to margin futures transactions on domestic exchanges. In addition, the price of any foreign futures or option contract and, therefore, the potential profit and loss resulting therefrom, may be affected by any fluctuation in the foreign exchange rate between the time the order is placed and the time the foreign futures contract is liquidated or the time the foreign option contract is liquidated or exercised.

*Forward Contracts.* A client may enter into forward contracts and options thereon, including non-deliverable forwards, which are currently not traded through clearinghouses, although this is expected to change. The principals who deal in the forward contract market are not required to



continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to less than that which the Adviser would otherwise recommend, to the possible detriment of a client. In its forward trading, a client will be subject to the risk of the failure of, or the inability or refusal to perform with respect to its forward contracts by, the principals with which the client trades. Fund assets on deposit with such principals will also generally not be protected by the same segregation requirements imposed on certain regulated brokers in respect of customer funds on deposit with them. The Adviser may order trades for a client in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject a client to the risk of loss.

*Contracts for Differences.* Contracts for differences (“CFDs”) are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument’s value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. As is the case with trading any financial instrument, there is the risk of loss associated with trading a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying security will require the posting of additional margin. CFDs also carry counterparty risk, i.e., the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on a client’s obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase such client’s financial risk.

*Failure to Enter into Offsetting Trade.* To the extent a client invests in a futures contract or long option, unless an offsetting trade is made, the client would be required to take physical delivery of the commodity underlying the future or option. To the extent the Adviser fails to enter into such offsetting trade prior to the expiration of the contract, a client may suffer a loss since neither the client nor the Adviser has the operational capacity to accept physical delivery of commodities.

*Exotic Options.* Exotic options are typically, but not always, traded over-the-counter. OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. A client may incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option. Because exotic options can often be highly customized, there is lower visibility with respect to the pricing and valuation of these instruments. Exotic options may be subject to high levels of price volatility. For example, in the case of barrier options, as the price of the asset underlying the option trades closer to a barrier level, the delta of the option (i.e., the ratio of the change in the price of the underlying asset to the corresponding change in the price of the option) and the gamma of the option (i.e., the rate of change of the delta with respect to the underlying asset’s price) may become very high. Exotic options may be subject to higher levels of model risk than commonly traded options because standard models are not able to adequately capture or predict the risks associated with the exotic options. Exotic options may be “path dependent”. This means that their terminal value (at exercise or expiration) depends upon the value of the underlying

asset, not only at the time of exercise or expiration, but also at prior points in time. In this sense, the option's terminal value depends upon the "path" taken by the underlying asset over the life of the option. For example, a barrier option's value at expiration depends upon both the value of the underlying asset at expiration and whether the past value of the underlying asset ever satisfied a barrier condition. In contrast, a vanilla option (e.g., a call option) is not path dependent. Its value at exercise or expiration depends on the value of the underlying asset only at that point in time. The additional features incorporated by exotic options require additional judgments regarding the likelihood of certain conditions being satisfied, any one of which can result in loss if made incorrectly. An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty; however, the exposure to counterparty risk may differ. OTC options generally involve greater credit and counterparty risk than exchange-traded options.

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

*Currencies.* A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts traded by a client are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex and difficult to predict factors such as money supply and demand, balance of payments, inflation levels, fiscal policy, and political and economic events. In addition, governments from time to time intervene, directly and by regulation, in these markets, with the specific effect, or intention, of influencing prices which may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

*Illiquid Securities.* Certain securities may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such securities. Valuation of such securities may be difficult or uncertain because there may be limited information available about the issuers of such securities. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and a client may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. 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 markets. A client may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, a client may be required to hold such securities despite adverse price movements. Even those markets which the Adviser expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

*Initial Public Offerings.* Investments in initial public offerings (or shortly thereafter) may involve higher risks than investments issued in secondary public offerings or purchases on a secondary market due to a variety of factors, including the limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer and limited operating history of the issuer. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them. These factors may contribute to substantial price volatility for such securities and, thus, for the value of a client's portfolio.

*Loan Investments.* A client's success in the area of loan investing will depend, in part, on its ability to obtain loans on advantageous terms. In purchasing loans, a client will compete with a broad spectrum of investors and institutions. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

*Bridge Loans.* It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including LBOs, where they serve as advisers to the purchaser. Bridge loans are frequently made because, for timing or market reasons, longer-term financing is not available at the time the funds are needed, which is often at the time of the closing of an acquisition. In the past, these commitments were not frequently drawn upon due to the availability of other sources of financing; however, due to market conditions affecting the availability of these other sources of financing (principally high-yield bond transactions), bridge loan commitments have been and may be drawn upon more regularly. Since these commitments were not regularly drawn upon in the past, there is little history for investors to rely upon in evaluating investments in bridge loans. Bridge loans often have shorter maturities. Borrower and lenders typically agree to shorter maturities based on the anticipation that the bridge loans will be replaced with other forms of financing within such shorter time period. However, the source and timing of such replacement financing may be uncertain and can be affected by, among other things, market conditions and the financial condition of the borrower at the maturity date of the bridge. If the borrower is unable to obtain replacement financing and repay the bridge loan at maturity, the terms of the bridge loan may provide for the bridge loan to be converted to a longer term loan. If bridge loans are not repaid (or cannot be disposed of on favorable terms) on the dates projected by the Adviser, there may be an adverse effect upon the ability of the Adviser to manage the assets of a client in accordance with its models and projections or an adverse effect upon the client's performance and ability to make distributions.

*Private Student Loans.* In general, private education loans are made to students who may have higher debt burdens than student loan borrowers as a whole and who may be more likely than other student loan borrowers to default on their payments or have a higher rate of forbearances, which could affect the timing and amount of available funds for any collection period and adversely affect an issuing entity's ability to pay principal and interest. In addition, the private education loans are not secured by any collateral of the borrowers and are not insured by any governmental agency. Consequently, the Adviser and its clients may bear the risk of loss to the extent that the reserve account or other specified credit enhancement is insufficient or unavailable to cover a borrower's default.

In addition, a borrower may prepay a student loan in whole or in part, at any time, and an issuing entity may receive unscheduled payments due to defaults and purchases by the loan servicer or the depositor. Consequently, to the extent applicable, the length of time that the notes are outstanding and accruing interest may be shorter than expected, which may affect returns. On the other hand, student loans may be extended as a result of grace periods, deferment periods and, under some circumstances, forbearance periods which may delay principal payments. In addition, the amount available for distribution may be reduced if borrowers fail to pay timely the principal and interest due on the student loans. Consequently, the length of time that the notes are outstanding and accruing interest may be longer than expected, which may affect returns.

Finally, private education loans, while not generally dischargeable in bankruptcy proceedings, can become dischargeable if the borrower proves that keeping the loans non-dischargeable would impose an undue hardship on the debtor and the debtor's dependents.

*Commercial Loans and Loan Participations.* Clients may invest in corporate loans and interests in syndicated, commercial bank loans, whether acquired through assignment or participation. Under the agreements governing most syndicated loans, should the client, as a holder of an interest in a syndicated loan, wish to call a default or exercise remedies against a borrower, it could not do so without the agreement of at least a majority of the other lenders. Further, actions could be taken by a majority of the other lenders, or in some cases, a single agent bank, without the consent of the client. The client would, nevertheless, be liable to indemnify the agent bank for the client's ratable share of expenses or other liabilities incurred in such connection and, generally, with respect to the administration and any renegotiation or enforcement of the syndicated loans. Moreover, an assignee or participant in a loan may not be entitled to certain gross-up payments in

respect of withholding taxes and other indemnities that otherwise might be available to the original holder of the loan.

In purchasing participations, the client will usually have a contractual relationship only with the selling institution, and not the borrower. The client generally will have no right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor will it have the right to object to certain changes to the loan agreement agreed to by the selling institution. The client may not directly benefit from the collateral supporting the related secured loan and may not be subject to any rights of set-off the borrower has against the selling institution. Further, in most cases, the holder of a participation will be bound by the actions or omissions of the selling institution and will be liable to indemnify the selling institution against expenses and liabilities allocable to the portion of the loan represented by the participation.

In addition, in the event of the insolvency of the selling institution, under the laws of the United States and the states thereof, the client may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the secured loan. Consequently, the client may be subject to the credit risk of the selling institution as well as of the borrower. Certain loans or loan participations may be governed by the laws of a jurisdiction other than a United States jurisdiction, which may present additional risks as regards the characterization under such laws of such participation in the event of the insolvency of the selling institution or the borrower.

***PIPE Transactions.*** Private investments in public companies whose stocks are quoted on stock exchanges or which trade in the over-the-counter securities market, a type of investment commonly referred to as a "PIPE" transaction, may be entered into with smaller capitalization public companies, which will entail business and financial risks comparable to those of investments in the publicly-issued securities of smaller capitalization companies, which may be less likely to be able to weather business or cyclical downturns than larger companies and are more likely to be substantially hurt by the loss of a few key personnel. In addition, PIPE transactions will generally result in a client acquiring either restricted stock or an instrument convertible into restricted stock. As with investments in other types of restricted securities, such an investment may be illiquid. A client's ability to dispose of securities acquired in PIPE transactions may depend on the registration of such securities for resale. Any number of factors may prevent or delay a proposed registration. Alternatively, it may be possible for securities acquired in a PIPE transaction to be resold in transactions exempt from registration in accordance with Rule 144 under the Securities Act, or otherwise under the U.S. federal securities laws. There can be no guarantee that there will be an active or liquid market for the stock of any small capitalization company due to the possible small number of stockholders. As a result, even if a client is able to have securities acquired in a PIPE transaction registered or sell such securities through an exempt transaction, the client may not be able to sell all the securities on short notice, and the sale of the securities could lower the market price of the securities. There is no guarantee that an active trading market for the securities will exist at the time of disposition of the securities, and the lack of such a market could hurt the market value of a client's investments.

***Preferred Stock.*** Investments in preferred stock involve risks related to priority in the event of bankruptcy, insolvency or liquidation of the issuing company and how dividends are declared. Preferred stock ranks junior to debt securities in an issuer's capital structure and, accordingly, is subordinate to all debt in bankruptcy. Preferred stock generally has a preference as to dividends. Such dividends are generally paid in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

***Real Estate.*** Real estate investments are not as liquid as other types of investments and this lack of liquidity may tend to limit a client's ability to react promptly to changes in economic or other conditions. In addition, expenditures associated with real estate investments, such as mortgage payments, real estate taxes and

maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. A client may need to comply with certain legal, tax and other requirements prior to liquidating such investments.

***Real Estate Insurance.*** The insurance coverage applicable to real estate investments contains policy specifications and insured limits customarily carried for similar properties, business activities and markets. There may be certain losses, including losses from floods and losses from earthquakes, acts of war, acts of terrorism or riots, that are not generally insured against or that are not generally fully insured against because it is not deemed to be economically feasible or prudent to do so. If an uninsured loss or a loss in excess of insured limits occurs with respect to a real estate investment, a client could experience a significant loss and could potentially remain obligated under any recourse debt associated with the property.

***Potential Environmental Liability.*** Under various U.S. federal, state, and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. The costs of removal or remediation of such substances could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. A client will attempt to assess such risks as part of the Adviser's due diligence activities, but the Adviser cannot give any assurance that such conditions do not exist or may not arise in the future. The presence of such substances on a client's real estate investments could adversely affect its ability to sell such investments or to borrow using such investments as collateral.

***Real Estate-Related Securities.*** Securities issued by entities which invest in real estate, including "real estate investment trusts" ("REITs"), generally will be subject to the risks incident to the ownership and operation of commercial real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate. Such risks include, without limitation, the risks associated with both the domestic and international general economic climates; local real estate conditions; risks due to dependence on cash flow; risks and operating problems arising out of the absence of certain construction materials; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); the financial condition of tenants, buyers and sellers of properties; changes in availability of debt financing; energy and supply shortages; changes in the tax, real estate, environmental, and zoning laws and regulations; various uninsured or uninsurable risks; natural disasters; and the ability of a client or third-party borrowers to manage the real properties. In addition, a client may 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.

***Repurchase and Reverse Repurchase Agreements.*** In a reverse repurchase transaction, a client "buys" securities issued 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 the client, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by a client involves certain risks. For example, if the seller of securities to the client under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the client will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the client's ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the client may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, a client may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

***Restricted Securities.*** Restricted securities cannot be sold to the public without registration under the Securities Act. Unless registered for sale, restricted securities can be sold only in privately negotiated transactions or pursuant to an exemption from registration (e.g., under Rule 144A of the Securities Act).

Although these securities may be resold in privately negotiated transactions, because there is often little liquidity for these securities, they may be difficult and take a substantial amount of time to sell, and the prices realized from these sales could be less than those originally paid by a client. Restricted securities may involve a high degree of business and financial risk which may result in substantial losses.

*Undervalued Securities.* The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities 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 for the business and financial risks assumed.

*Unlisted Securities.* Unlisted securities may involve higher risks than listed securities. Because of the absence of any trading market for unlisted securities, it may take longer to liquidate, or it may not be possible to liquidate, positions in unlisted securities than would be the case for publicly traded securities. Companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

*Distressed Securities.* Investments in unrated or low grade debt securities of distressed companies are subject to greater risk of loss of principal and interest than higher-rated debt securities. Also, securities of distressed companies are generally more likely to become worthless than the securities of more financially stable companies.

*When-Issued and Forward Commitment Securities.* The purchase of securities on a "when-issued" basis involves a commitment by a client to purchase or sell securities at a future date (typically one or two months later). No income accrues on securities that have been purchased on a when-issued basis prior to delivery to the client. When-issued securities may be sold prior to the settlement date. If a client disposes of the right to acquire a when-issued security prior to its acquisition, it may incur a gain or loss. In addition, there is a risk that securities purchased on a when-issued basis may not be delivered to the client. In such cases, the client may incur a loss.

*Non-U.S. Exchanges.* A client may trade on exchanges or markets located outside the U.S. Trading on such exchanges or markets is not regulated by the SEC and the CFTC and may, therefore, be subject to more risks than trading on U.S. exchanges, such as the risks of exchange controls, expropriation, burdensome taxation, moratoria and political or diplomatic events. Risks in investments in non-U.S. securities may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets, higher brokerage commissions and custody fees.

*Non-U.S. Investments.* Investing in the securities of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in securities of U.S. companies or the U.S. government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict a client's investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, a client may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce a client's rights in such markets. For example, securities traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the CFTC or the securities and commodities laws and

regulations of the U.S. Accordingly, the protections accorded to a client under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

***Dependence on Developing Countries.*** The level of commodity prices can fluctuate widely due to supply and demand disruptions in major producing or consuming regions. In particular, recent growth in industrial production and gross domestic product has made many developing countries, particularly China, disproportionately large users of commodities and has increased the extent to which commodity prices are dependent on the markets of those developing countries. Political, economic and other developments that affect these developing countries may affect the level of certain commodities and, thus, the value of a client's investments. Because certain commodities may be produced in a limited number of countries and may be controlled by a small number of producers, political, economic and supply-related events in those countries could have a disproportionate impact on the prices of commodity futures contracts and other types of financial instruments in which a client will invest. Events affecting the prices of commodities tend to affect prices worldwide, regardless of the location of the event.

***Discontinuation of LIBOR.*** The London Interbank Offered Rate ("LIBOR"), which is commonly used as a reference rate within various financial contracts (any such rate, a "Reference Rate"), will not be published after the year 2021 (or June 2023 for certain USD LIBOR tenors). In anticipation of the end of LIBOR, the United States and other countries are currently working to replace LIBOR with alternative Reference Rates. As a general matter, the expected discontinuation of LIBOR may significantly impact financial markets; specifically, discontinuation may impact financial contracts to which clients are a party. Generally, the transition to alternative Reference Rates may (i) cause the value of a Reference Rate to be uncertain or to be lower or more volatile than it would otherwise be; (ii) result in uncertainty as to the functioning, liquidity or value of certain financial contracts; (iii) involve actions of regulators or rate administrators that adversely affect certain markets or specific financial contracts; and (iv) impact the strategy, products, processes, legal positions and information systems of market participants, including clients and their counterparties. With respect to certain financial contracts to which clients are a party, any such contract that has a maturity that extends beyond the cessation date and uses LIBOR as a Reference Rate (other than contracts that include curative fallback language or other curative mechanisms) may need to be renegotiated, the process of which will consume resources of clients and may result in disputes among counterparties, the result of which may be adverse to clients. Considered in their entirety, the impacts of the discontinuation of LIBOR on financial markets generally and on the specific financial contracts to which clients are a party may adversely affect the performance of clients.

***Additional risks relating to the Adviser include:***

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

***Risk Management Failures.*** Although the Adviser attempts to identify, monitor and manage significant risks, these efforts do not take all risks into account and there can be no assurance that these efforts will be effective. Moreover, many risk management techniques, including those employed by the Adviser, are based on historical market behavior, but future market behavior may be entirely different and, accordingly, the risk management techniques employed on behalf of clients may be incomplete or altogether ineffective. Similarly, the Adviser may be ineffective in implementing or applying risk management techniques. Any inadequacy or failure in risk management efforts could result in material losses to clients.

*Systems and Operational Risk.* The Adviser relies on certain financial, accounting, data processing and other operational systems and services that are employed by the Adviser and/or by third party service providers, including prime brokers, the third party administrator, market counterparties and others. Many of these systems and services require manual input and are susceptible to error. These programs or systems may be subject to certain defects, failures or interruptions. For example, the Adviser and its clients could be exposed to errors made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or related to other similar disruptions in the clients' operations. In addition, despite certain measures established by the Adviser and third party service providers to safeguard information in these systems, the Adviser, clients and their third party service providers are subject to risks associated with a breach in cybersecurity which may result in damage and disruption to hardware and software systems, loss or corruption of data and/or misappropriation of confidential information. Any such errors and/or disruptions may lead to financial losses, the disruption of the client trading activities, and liability under applicable law, regulatory intervention or reputational damage.

*Business, Terrorism and Catastrophe Risks.* Clients will be subject to the risk of loss arising from exposure that it may incur, indirectly, due to the occurrence of various events, including hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events such as a pandemic. These catastrophic risks of loss can be substantial and could have a material adverse effect on the Adviser's business and the portfolios it manages.

*Coronavirus Risks.* In December 2019, a novel strain of coronavirus (known as COVID-19) surfaced in Wuhan, China, which has spread across the world, resulting in disruption of manufacturing supply chains and local and global economies and closures of travel and business, the duration of which remain uncertain. Additional market disruptions may occur. The extent to which COVID-19 may negatively affect the Adviser's operations and the performance of clients continues to be difficult to predict. Any potential impact on such operations and performance will depend to a large extent on future developments and new information that may emerge regarding the duration and severity of COVID-19 and the actions taken by authorities and other entities to contain COVID-19 or treat its impact. These potential impacts, while uncertain, could adversely affect the performance of the Adviser's clients.

In addition, in response to the spread of COVID-19, many businesses, including the Adviser, have encouraged or mandated that their personnel work from home in an effort to help slow the spread of the coronavirus pandemic. Notwithstanding such precautionary measures, the Adviser may still experience a significant increase in illness of its personnel. To the extent personnel, as a result of working remotely, rely more heavily on external sources for information and technology systems for their business-related communications and information sharing, that business will likely be more vulnerable to cybersecurity incidents and cyberattacks and could have more difficulty resuming normal operations in the event it is the target of such incident or attack. See "Cybersecurity Risk," above.



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**Item 9. Disciplinary Information**

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

As part of its routine compliance monitoring, all employees are required to certify upon hire and annually thereafter whether they have been the subject of certain disciplinary actions.

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## Item 10. Other Financial Industry Activities and Affiliations

Neither the Adviser nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Neither the Adviser nor any of its management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.

As discussed above, Trimaran and TAM claim SEC registration as “relying advisers” of the Adviser. The Adviser and Trimaran and TAM are under common control, operate as a single investment advisory firm, and are subject to the same code of ethics and compliance program, both of which are administered by a single Chief Compliance Officer pursuant to the requirements of the Investment Advisers Act of 1940 (the “Advisers Act”).

**Potential Conflicts of Interest: Trimaran and TAM.** Certain individuals concurrently act as officers or employees of Trimaran, TAM or the Adviser. Some of these individuals’ compensation may be based on the performance of Trimaran and/or TAM; this could theoretically give them an incentive to favor the clients of Trimaran or TAM at the expense of the Adviser’s clients. In practice, however, any such incentives are mitigated because the Adviser and its affiliates operate an integrated advisory business and focus on delivering services to all of their clients, and major decisions, including compensation decisions, are made at the firm-wide level.

Trimaran and TAM may from time to time invest in, or cause their clients to invest in, the same or similar securities that the Adviser selects for its clients. This creates an incentive for Trimaran, TAM and the Adviser to favor clients that pay higher fees; if certain clients consistently receive the more favorable investment opportunities, such clients would tend to have better investment performance, to the detriment of other clients. In practice, Trimaran, TAM and the Adviser generally focus on different types of investments (i.e., the Adviser typically focuses on less liquid, middle-market senior investments, and to a greater extent, junior or mezzanine lien investments, while Trimaran and TAM generally invest in more liquid, broadly-syndicated loans). Moreover, Trimaran, TAM and the Adviser generally source investments within independent investment teams. Nonetheless, to the extent Trimaran, TAM and the Adviser pursue investments simultaneously, Trimaran, TAM and the Adviser will seek to aggregate and allocate such investments in manner that is fair and equitable over time.

The Adviser (on behalf of its investment advisory clients) and Trimaran and TAM (on behalf of their investment advisory clients) each have the authority to purchase and sell investments directly between them. All such purchases and sales must be at an arm’s length basis and the investment advisory client must approve each such transaction. If Trimaran or TAM controls the client (or itself is the party to the proposed transaction), it has the potential capacity to approve transactions that favor its own direct interest. If and when it does, Trimaran, TAM and the Adviser address this conflict by using a third party (typically an active dealer in such a position) to determine the appropriate buy and sell price and execute the trade. In practice, the occurrence of such sales is rare given the difference in investment focus discussed above.

The Adviser may own classes of junior securities in the CLO funds to which Trimaran and TAM provide services as investment manager. Payments with respect to junior securities can be made only when all senior payments have been made. As such, the Trimaran and TAM may have an incentive to take a greater degree of risk to increase the likelihood that payments are made to junior securities. However, this risk is substantially mitigated by the fact that the potential negative effects of such a higher degree of risk, if realized, will first and more heavily impact the junior securities owned by the Adviser, as they would realize the “first loss.” As such, these junior tranches would be wiped out prior to those tranches in a more senior position. If, however, Trimaran and TAM take a greater degree of risk in order to increase the likelihood that payments are made to junior securities holders, the senior securities holders incur more uncertainty

that their payments will be made. This risk is also addressed through the investment requirements and guidelines that govern investment of the assets of the CLO funds.

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Except as otherwise disclosed in this Brochure, neither the Adviser nor any of its management persons has a relationship or arrangement that is material to its advisory business or to its clients with any related person. In addition, the Adviser does not recommend or select other investment advisers for its clients.

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

The Adviser has adopted a Code of Ethics (the “Code”) that obligates the Adviser and its personnel (i) to put the interests of the Adviser’s clients before its own interests, (ii) to act honestly and fairly in all respects in its dealings with clients and (iii) to comply with applicable federal securities laws. Clients or prospective clients may obtain a copy of the Code by contacting the Adviser by email at [compliance@libremax.com](mailto:compliance@libremax.com) or by telephone at (212) 612-1550. See below for further provisions of the Code as they relate to the preclearing and reporting of securities transactions by Adviser personnel.

It is possible that the Adviser, Trimaran, TAM or their personnel may invest in the same securities (or related securities, e.g., warrants, options or futures) that the Adviser or its personnel recommends to clients and may trade in a particular security in a manner that is the same as, different from, or even opposite to the trading activity undertaken by the Adviser on behalf of its clients with respect to that same security; such practices present a conflict where, because of the information the Adviser, Trimaran or TAM have, the Adviser, Trimaran, TAM or its personnel are in a position to trade in a manner that could adversely affect clients (e.g., place its own trades before or after client trades are executed in order to benefit from any price movements due to the clients’ trades). In addition to affecting the Adviser’s, Trimaran’s, TAM’s or their personnel’s objectivity, these practices by the Adviser, Trimaran, TAM or their personnel could adversely affect the price at which the clients’ trades are executed. To address such conflicts, the Adviser has adopted policies that require its related persons to preclear certain types of transactions in their personal accounts with the Chief Compliance Officer or her designee, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one of the clients. In addition, the Code:

- prohibits personnel from executing personal securities transactions in securitized products, securities in certain restricted industries, as well as any securities on a restricted securities list maintained by the Chief Compliance Officer, unless an exemption is granted by the Chief Compliance Officer or her designee;
- requires all personnel to provide the Chief Compliance Officer with copies of all brokerage transaction confirmations and monthly and quarterly account statements; and
- requires all personnel to certify quarterly as to personal securities transactions and annually as to personal securities account holdings.

Trading in personnel accounts will be reviewed by the Chief Compliance Officer or her designee and compared with transactions for the client accounts and reviewed against the restricted securities list.

To the extent that the Adviser, Trimaran, TAM or any their personnel own securities that the Adviser also recommends to clients, such clients’ proxies will be voted according to predetermined guidelines rather than subject to the Adviser’s discretion. Please refer to Item 17 for further information regarding the Adviser’s proxy voting policy and procedures.

The Adviser, in the course of its investment management and other activities (e.g., board or creditor committee service), may come into possession of confidential or material nonpublic information about issuers, including issuers in which the Adviser has invested or seek to invest on behalf of clients. The Adviser is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the Adviser is meeting its obligations to clients and remains in compliance with applicable law.

In certain circumstances, the Adviser may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be

prohibited from communicating such information to the client or using such information for the client's benefit. In such circumstances, the Adviser will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that the Adviser possesses such information), or not using such information for the client's benefit, as a result of following the Adviser's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

***Participation or Interest in Client Transactions.*** The Adviser may effect cross transactions between discretionary client accounts, except as otherwise noted below. Cross transactions enable the Adviser to effect a trade between two clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and saving commission costs for both accounts. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar. The Adviser has a potentially conflicting division of loyalties and responsibilities regarding both parties to cross transactions.

The Adviser's investment management agreements authorize it to buy securities from, and to sell securities to, its clients. The Adviser has the ability but generally does not make a practice of engaging in principal transactions; to the extent that the Adviser engages in principal transactions, the Adviser will comply with the requirements of Section 206(3) of the Advisers Act. Cross transactions between client accounts are not permitted if they would constitute principal trades or trades for which the Adviser or its affiliates are compensated as a broker unless client consent has been obtained based upon written disclosure to the client of the capacity in which the Adviser or its affiliates will act. In addition, cross transactions are not permitted for benefit plan or other similar accounts that are subject to ERISA.

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## Item 12. Brokerage Practices

**Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.** The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include net price, reputation, financial strength and stability, efficiency of execution and error resolution, offering to the Adviser on-line access to computerized data regarding a client's accounts. In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. The Adviser's Chief Compliance Officer and trading professionals meet periodically to evaluate the broker-dealers used by the Adviser to execute client trades using the foregoing factors.

**Research and Other Soft Dollar Benefits.** The Adviser may receive research or other products or services other than execution from a broker-dealer and/or a third party in connection with client securities transactions. This is known as a "soft dollar" relationship. While the Adviser does not currently have any existing commission-based soft-dollar research purchase relationships and does not currently anticipate that it will have any significant soft dollar relationships, in the event the Adviser does enter into such arrangements, it will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). The Adviser may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up).

If the Adviser uses client commissions to obtain Section 28(e) eligible research and brokerage products and services, the Adviser's Risk Management Committee will meet quarterly to evaluate its soft dollar practices and to determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination will be viewed in terms of either the specific transaction or the Adviser's overall responsibilities to the accounts or portfolios over which the Adviser exercises investment discretion.

The use of client commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, the Adviser will not have to pay for the products and services itself. This creates an incentive for the Adviser to select or recommend a broker-dealer based on its interest in receiving those products and services. The Adviser's use of client commissions to obtain research and brokerage products and services may result in higher transaction costs for clients.

Research and brokerage services obtained by the use of commissions arising from a client's portfolio transactions may be used by the Adviser in its other investment activities, including, for the benefit of other client accounts. The Adviser will not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

The Adviser may participate in "client commission arrangements" pursuant to which the Adviser may execute transactions through a broker-dealer and request that the broker-dealer allocate a portion of the commissions or commission credits to another firm that provides research and other products to the Adviser. The Adviser excludes from use under these arrangements those products and services that are not eligible under Section 28(e) and applicable regulatory interpretations.

In some instances, the Adviser may obtain a product or service that is used, in part, by the Adviser for Section 28(e) eligible purposes and, in part, for other purposes. In such instances, the Adviser will make a good faith effort to determine the relative proportion of the product or service used to assist the Adviser in carrying out its investment decision-making responsibilities and the relative proportion used for

administrative or other purposes outside Section 28(e). Such determination will be made based on the actual use of the product or service by the Adviser's personnel. The proportion of the product or service attributable to assisting the Adviser in carrying out its investment decision-making responsibilities will be paid through brokerage commissions generated by client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by the Adviser from its own resources. The determination of the appropriate allocation of "mixed use" products and services creates a potential conflict of interest between the Adviser and clients.

**Brokerage for Client Referrals.** From time to time the Adviser may participate in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to a private fund managed by the Adviser. In addition, such brokers may recommend private funds managed by the Adviser to potential investors. The Adviser may place client portfolio transactions with firms who have made such recommendations or provided capital introduction opportunities, if the Adviser determines that it is otherwise consistent with seeking best execution. In no event will the Adviser select a broker-dealer as a means of remuneration for recommending the Adviser or any other product managed by the Adviser or affording the Adviser with the opportunity to participate in capital introduction programs.

**Order Aggregation.** The Adviser often purchases or sells the same security for multiple clients contemporaneously/at or near the same time and using the same executing broker. It is the Adviser's practice, where possible, to aggregate client orders for the purchase or sale of the same security submitted contemporaneously/at or near the same time for execution using the same executing broker. The Adviser will also aggregate in the same transaction, the same securities for accounts where the Adviser has brokerage discretion. Such aggregation may enable the Adviser to obtain for clients a more favorable price or a better commission rate based upon the volume of a particular transaction. In cases where trading or investment restrictions are placed on a client's account, the Adviser may be precluded from aggregating that client's transaction with others. In such a case, the client may pay a higher commission rate and/or receive less favorable prices than clients who are able to participate in an aggregated order. When an aggregated order is completely filled, the Adviser allocates the securities purchased or proceeds of sale pro rata among the participating accounts, based on the purchase or sale order, or otherwise in accordance with the Adviser's allocation policy and procedures. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding, and market practice. If an aggregated order is only partially filled, the Adviser's procedures provide that the securities or proceeds are to be allocated in a manner deemed fair and equitable to clients. Depending on the investment strategy pursued and the type of security, this may result in a pro rata allocation to all participating clients.

With respect to aggregated orders and other investment opportunities, when allocating purchases and sales of securities among clients, the Adviser generally takes into account a number of factors, including: (i) client's investment objectives and strategies; (ii) target leverage and exposure profiles; (iii) restrictions placed on a client's portfolio by the client or by applicable law; (iv) size and cash availability of the client account; (v) total portfolio invested position; (vi) nature and liquidity of the security to be allocated; (vii) size of available position; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. The Adviser generally utilizes an asset class weightings model that seeks to allocate investment opportunities to eligible client accounts in proportion to the percentage deficit of each client's account from its targeted asset class weighting, while taking into consideration the factors described above. In the event that all eligible accounts have met or exceeded their relevant target asset class weighting for a particular investment opportunity, such investment opportunity will be allocated on a proportional basis of the over-allocation of each relevant client. Adjustments to this general process may be made by the Adviser in its discretion, for example, to avoid creating small or odd lots of securities or due to the cash availability of certain client accounts. Even client accounts that are typically managed on a *pari passu* basis from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type (e.g., equities) divided by the total assets of all accounts eligible to invest in the particular investment.

Securities acquired by the Adviser for its clients through a limited offering will be allocated pursuant to the procedures set forth in the Adviser's allocation policy. The policy provides that the Adviser will determine the proposed allocation of limited offering securities according to the model described above with respect to general allocations of securities and determining those client accounts eligible to hold such securities. Eligibility will be based on the legal status of the clients and the client's investment objectives and strategies.



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**Item 13. Review of Accounts**

**Frequency and Nature of Review.** The Adviser's Chief Investment Officer, the Portfolio Manager, traders and financial, operational, risk and compliance departments conduct various client account reviews on a continuous basis. These reviews include, but are not limited to, daily reviews of position and transaction reports, profit and loss reports, adherence to investment guidelines, as well as frequent risk and performance reports including scenario and stress testing. In addition, the Investment Committee of the Adviser, which is Chaired by the Chief Investment Officer, meets on a frequent basis but in any case at least monthly to review the client accounts and discuss general market conditions and other investment related matters.

**Factors Prompting a Non-Periodic Review of Accounts.** Significant market events affecting the prices of one or more securities in client accounts, changes in the investment objectives or guidelines of a particular client, or specific arrangements with particular clients may trigger reviews of client accounts on other than a periodic basis.

**Content and Frequency of Regular Account Reports.** The Adviser generally provides annual audited financial statements to its clients within 120 days of the applicable client's fiscal year end. A client's investors receive reports from the client pursuant to the terms of each client's offering memoranda or as otherwise described in the offering document of the client.

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**Item 14. Client Referrals and Other Compensation*****Economic Benefits Received from Non-Clients for Providing Services to Clients.***

The Adviser does not receive economic benefits from non-clients for providing investment advice and other advisory services.

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

Neither Adviser nor any of its related persons directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. The Adviser, however, has entered into arrangements with third party placement agents to introduce certain prospective investors to the Adviser that provide for payments by the Adviser to such placement agents in connection with investments made by such investors in the Adviser's private investment funds. The Adviser may enter into other similar arrangements in the future with other placement agents.

Placement agents that introduce prospective investors to the Adviser are subject to a conflict of interest to the extent that they will be compensated in connection with their placement activities. Placement agents are required to disclose to prospective investors the placement arrangement and any fees associated with the arrangement prior to investment.

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**Item 15. Custody**

The Adviser, or an affiliate of the Adviser, is deemed to have custody of client funds and securities because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or due to serving as the general partner to limited partnership. Accordingly, the Adviser and its affiliates intend to comply with Rule 206(4)-2 under the Advisers Act (the "Custody Rule") by meeting the conditions of the pooled vehicle annual audit provision.

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**Item 16. Investment Discretion**

The Adviser provides investment advisory services on a discretionary basis to clients. Please see Item 4 for a description of any limitations clients may place on the Adviser's discretionary authority.

Prior to assuming full discretion in managing a client's assets, the Adviser enters into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion.

Unless otherwise instructed or directed by a discretionary client, the Adviser has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) and (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held.

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**Item 17. Voting Client Securities**

Given the nature of its investment strategy, which does not generally involve investment in public equity securities, the Advisor does not often have the opportunity to vote proxies. To the extent the Advisor has occasion to vote proxies and has been delegated proxy voting authority on behalf of its clients, the Advisor complies with its proxy voting policies and procedures that are designed to ensure that in cases where the Advisor votes proxies with respect to client securities, such proxies are voted in the best interests of its clients. Except where a client has retained proxy voting authority under the terms of its advisory agreement, the Advisor's clients and investors are not permitted to direct their votes in a particular solicitation. If a material conflict of interest between the Advisor and a client exists, the Advisor will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the client or take some other appropriate action. The Advisor does not make any qualitative judgment regarding its client's investments. Under certain circumstances, the Advisor may abstain from voting specific proxies if it determines that doing so is in the best interests of the clients.

Clients may obtain a copy of the Advisor's proxy voting policies and procedures and information about how the Advisor voted a client's proxies by contacting the Advisor by email at [compliance@libremax.com](mailto:compliance@libremax.com) or by telephone at (212) 612-1550.

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**Item 18. Financial Information**

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