

## **B. RILEY CAPITAL MANAGEMENT**

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### **FORM ADV PART 2A FIRM BROCHURE**

MARCH 24, 2021

This Form ADV Part 2A Firm Brochure (this “Brochure”) provides information about the qualifications and business practices of B. Riley Capital Management (“BRCM” or the “Firm”). If you have any questions about the contents of this Brochure, please contact the Firm’s Chief Compliance Officer, Michael Markunas at 310-689-2220 or [mmarkunas@brileyfin.com](mailto:mmarkunas@brileyfin.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about BRCM also is available on the SEC’s website at <http://www.adviserinfo.sec.gov>.

BRCM may refer to itself as a “registered investment adviser” in materials distributed to current and prospective clients. As a registered investment adviser with the SEC, BRCM is subject to the rules and regulations adopted by the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Registration as an investment adviser is not an indication that BRCM or its directors, officers, employees or representatives have attained a particular level of skill or ability.

ALL INVESTMENT ADVISORY AGREEMENTS ENTERED INTO BY BRCM WITH A CLIENT WILL BE EITHER PRECEDED BY THE PROVISION OF WRITTEN DISCLOSURES TO THE CLIENT REGARDING ANY MATERIAL CONFLICTS OF INTEREST RELATED TO BRCM, ITS REPRESENTATIVES, AND EMPLOYEES OR WILL INCLUDE WRITTEN DISCLOSURES AS PART OF OR ATTACHED TO THE INVESTMENT ADVISORY AGREEMENT PROVIDED TO THE CLIENT REGARDING ANY MATERIAL CONFLICTS OF INTEREST RELATED TO BRCM, ITS REPRESENTATIVES, AND EMPLOYEES.

## Item 2. Material Changes

The last amendment to the Form ADV Part 2A (the “Brochure”) was dated March 27, 2020. A summary of the material changes to this Brochure since the March 2019 filing includes amendments to the following items:

On May 8, 2020, BRCM and Great American Capital Partners, LLC (“GACP”) entered into a subadvisory agreement with a non-affiliated entity, Whitehawk Capital Partners, LP, an SEC registered investment adviser (“Whitehawk”). Whitehawk has been appointed as the subadviser to GACP I and GACP II.

On July 9, 2020, B. Riley FBR, Inc., a BRCM’s affiliated broker dealer through common control and ownership, has amended its certificate of incorporation to change the name of the corporation to B. Riley Securities, Inc. There are no other changes to the management and operation of the company besides the name change.

On February 25, 2021, B. Riley Financial, Inc. (NASDAQ: RILY) (“BRF”), the parent company of B. Riley Capital Management, Inc. (“BRCM”), announced the completion of its acquisition of National Holdings Corporation (NASDAQ: NHLD) (“National”) and all of its subsidiaries. BRCM is therefore under common ownership and control with National including National’s subsidiaries which include: (i) National Securities Corporation, a FINRA registered broker-dealer; (ii) National Asset Management, an SEC registered investment adviser; (iii) Winslow, Evans & Crocker, a dually registered FINRA broker-dealer and SEC investment adviser; and (iv) Winslow Wealth Management, an SEC registered investment adviser.

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## Item 4. Advisory Business

### A. Advisory Firm

B. Riley Capital Management, LLC (“BRCM”), a New York Limited Liability Company, is a wholly-owned subsidiary of B. Riley Financial, Inc., (“BRF”) a publicly traded Delaware corporation (NASDAQ: RILY). BRCM’s principal office is located at 11100 Santa Monica Boulevard, Suite 800, Los Angeles, California 90025.

### B. Investment Advisory Services

BRCM provides investment advisory services to pooled investment vehicles operating as private investment funds (“Funds” or “Clients”).

### C. Personalized Investment Advice

BRCM intends to manage each Fund pursuant to the investment strategy described in the confidential offering memorandum and governing documents of the Fund (the “*Offering Documents*”). Prospective investors in a Fund should carefully read the Fund’s Offering Documents and consult with their own counsel and advisers as to all matters concerning an investment in the Fund. As managing member of the general partner of a Fund, BRCM will have the power and authority to manage the day-to-day, administrative, business and investment affairs of the Fund.

One or more of the Funds may be structured as a “fund of hedge funds” (each, a “*FOHF*”). As managing member of the general partner of a FOHF and pursuant to the authority granted to BRCM in the limited partnership agreement or limited liability company agreement (“*LPA*”) of the FOHF, BRCM will select, on a discretionary basis, various other private investment fund managers or pooled investment vehicles, including without limitation, hedge funds (collectively, the “*Portfolio Funds*”), into which BRCM will invest the FOHF’s capital. BRCM will seek to diversify the FOHF’s capital investments by allocating capital to selected Portfolio Fund managers (“*Portfolio Fund Managers*”) that employ various investment strategies, including but not limited to convertible arbitrage, merger arbitrage, capital structure arbitrage, equity long/short, long biased, equity market neutral, short biased, distressed, global macro, managed futures, and master limited partnerships. To the extent that FOHF assets are not allocated to Portfolio Funds, the FOHF may make direct investments in U.S. government obligations, money market accounts and/or other short-term debt securities.

Although BRCM will not typically provide tailored investment advisory services to the individual investors in a Fund, the general partner of a Fund may enter into side letter agreements with certain investors which may modify certain terms applicable to such investors’ as well as such investors’ rights or obligations under the Fund’s LPA. Investors in a Fund may not impose restrictions on investing in certain securities or types of securities.

### D. Assets Under Management

As of December 31, 2020, BRCM managed approximately \$579,919,198 all on a discretionary basis.

## Item 5. Fees and Compensation

BRCM offers services through a variety of Funds that invest in a wide range of investment opportunities. Please see the discussion above in “*Item 4. Advisory Business*” for a description of the services BRCM offers. The fees and compensation paid to BRCM under the terms of each Fund will vary. Below is a discussion of the fees associated with each type of Fund.

### Open-End Private Investment Funds

#### **A. Types of Fees**

BRCM will be compensated for investment advisory services provided to a Fund by a fee based on the assets under management (“*AUM*”). Each Fund structured as an open-end vehicle (i.e., that provide liquidity to investors on a periodic basis) will pay BRCM a management fee equal to a percentage (generally, between 1% and 2%) of the Fund’s total AUM. The management fee typically will be paid by each Fund on a monthly or quarterly basis in advance by deduction from each investor’s account in the Fund. The management fee will be pro-rated for assets held in an investor’s account for less than a full period. BRCM, in its discretion, may offer to waive, reduce or rebate the management fee, in whole or in part, for any investors in the Fund.

BRCM may also receive annual performance-based compensation in arrears equal to a percentage of the net capital appreciation (i.e., capital appreciation less capital depreciation) of each investor’s account in a Fund. Where applicable, the performance-based compensation is payable only if, and to the extent that, the net capital appreciation of the investor’s account exceeds any net capital depreciation accumulated in prior years. If an investor withdraws all or a portion of its account in a Fund on a date other than at the end of a period, payment of the performance-based compensation will be made on the amount withdrawn for the period from the first day of the period to the date of withdrawal. BRCM, in its discretion, may offer to waive, reduce or rebate the performance-based compensation, in whole or in part, for any investors in the Fund.

From time to time, BRCM may recommend that a Client to purchase an interest in a BRCM-sponsored Fund, provided that the sale or purchase of such interest is consistent with BRCM’s fiduciary obligations to the investing Client. Investors should be aware that, while BRCM endeavors at all times to act in the best interests of its Clients, a transaction between a Client and a BRCM-sponsored Fund could result in certain conflicts of interest. In certain circumstances, BRCM may choose to reduce or not charge the advisory fees of the Fund with respect to a Client by the amount of advisory fees paid to BRCM by the Client.

#### **B. Other Fees and Expenses**

Each Fund will pay all other expenses deemed necessary and desirable by BRCM, including all investment, administrative, and operating expenses incurred on behalf of the Fund. In addition to the fees payable to BRCM, each Fund will incur and pay certain charges imposed by third parties, including, but not limited to, the following:

- any sales or other taxes, fees or government charges, including tax and reporting charges, that may be assessed against the Fund;
- interest charges, fees and expenses incurred in the borrowing and lending of securities;
- brokerage commissions, brokerage fees, transaction charges, and similar charges incurred in connection with the purchase or sale of securities;
- costs and expenses incurred in investigating, developing, negotiating, structuring, settling, monitoring and holding portfolio investments (whether or not consummated), including travel, external legal, tax, accounting expenses, compliance administrative fees, and audit fees and expenses associated therewith;
- due diligence expenses, including travel, legal counsel, tax, audit, compliance, and consulting fees and expenses, related to proposed investments or existing investments;

- governmental, registration, license and membership fees (including those payable to regulatory as well as self-regulatory organizations);
- costs and fees associated with the offer and sale of the interests of the Fund;
- market data costs;
- research-related expenses, including, without limitation, news and quotation equipment, software and services;
- the costs and expenses (including travel-related expenses) of holding meetings or conferences with a Fund's investors;
- costs and expenses incurred in connection with any threatened, pending, or anticipated litigation, examination, proceeding, regulatory matter or investigation;
- all expenses incurred as a result of the Fund's obligations to indemnify certain persons against losses, liabilities, and expenses incurred in connection with the performance of their duties of behalf of, or provision of services to, the Fund;
- expenses attributable to normal and extraordinary costs, expenses and charges associated with any investment banking, commercial banking, accounting, auditing, appraisal, valuation, tax advisory, tax preparation, legal, external consulting, custodial and registration services provided to the Fund;
- premiums for insurance, including liability insurance;
- costs of dissolving the Fund and liquidating its assets;
- costs and expenses for tax and audit services to the Fund;
- organizational expenses, including costs and expenses pertaining to the offering and sale of interests in the Fund, related legal payments and travel expenses;
- certain administrative expenses; and
- certain expenses related to regulatory filings.

Investors in a Fund should refer to the Fund's Offering Documents for complete information on the expenses payable by the Fund. Please see the discussion below in "*Item 12. Brokerage Practices*" for a description of the factors BRCM considers in selecting or recommending broker-dealers and determining the reasonableness of their compensation.

BRCM, in its discretion as the investment manager and the managing member of the general partner of a Fund, may allocate and amortize the organizational expenses of the Fund (including expenses of the initial offer and sale of the Fund's interests).

In addition to the fees paid to BRCM, a FOHF may be required to pay management fees and performance-based compensation to Portfolio Fund Managers. The Portfolio Fund Managers will generally receive both management fees (generally, a percentage of allocated assets) and performance-based compensation (generally, a percentage of profits from the allocated assets). The type, amount, payment, manner of payment, timing of payment and the frequency of these fees is specific to each Portfolio Fund as disclosed in each Portfolio Fund's offering memorandum and/or governing documents. However, management fees generally will range between 1% and 3% per annum of the assets under management, and performance-based compensation generally will range between

20% and 30% of such Portfolio Fund's profits, generally calculated annually but in some cases more frequently. The actual fees charged by the Portfolio Fund Managers may be less than or in excess of these estimated ranges. The Portfolio Fund's management fees and potentially other fees will be paid by the FOHF, indirectly through its investment in a Portfolio Fund, to each Portfolio Fund Manager, regardless of whether such Portfolio Fund Manager generated returns and irrespective of the overall performance of the Portfolio Fund.

### **C. Refunds**

To the extent a Fund pays the management fee in advance, if an investor in a Fund withdraws all or a portion of its account in the Fund on a date other than the end of a period, any unearned portion of the management fee (calculated from the date of withdrawal to the last day of the period) paid at the beginning of the period will be refunded by BRCM to the investor at the same time as the payment of withdrawal proceeds.

## **D. Sales Compensation**

In its capacity as managing member of the general partner and as investment manager of a Fund, neither BRCM nor any of its supervised persons accepts compensation for the sale of securities or other investment products. However, BRCM's affiliates, their respective supervised persons (some of which may also be supervised persons of BRCM) and/or their respective clients (including Clients of B. Riley FBR) may receive compensation and/or other transaction fees from investments by Clients into a Fund. These types of arrangements present potential conflicts of interest and provide the affiliate's supervised persons (and, in limited instances, BRCM's supervised persons) with an incentive to recommend investments based on compensation received rather than the best interests of the investing Clients. However, such compensation and fees will be paid by BRCM and/or its affiliates and not the Fund or other Client.

## **Closed-End Private Investment Funds**

### **A. Types of Fees**

BRCM will generally receive an annual management fee from each Fund structured as a closed-end vehicle (i.e., no liquidity offered to investors) equal to a percentage, generally 1.5%, of the capital commitment of each Fund investor from the initial closing of the Fund through the end of the Fund's investment period and, thereafter, a percentage, generally 1.5%, of the net invested capital (i.e., cost basis of all unrealized portfolio investments) of each Fund investor. BRCM, in its discretion, may waive or reduce the management fee as to all or any of the investors in the Fund.

BRCM may be entitled to receive fees from actual or prospective portfolio investments of the Funds, including origination, directors', transaction, breakup, commitment, closing, and monitoring fees. Although these fees are in addition to management fees paid by the Funds, BRCM will in certain circumstances reduce management fees in connection with the receipt of such fees.

Under each Fund's governing agreement, BRCM will be entitled to receive carried interest distributions. The carried interest distributions will generally be an amount equal to a percentage, generally 20%, of the profits from each portfolio investment made by such Fund after the return of invested capital and subject to a specified preferred return, typically between 6% to 8%, to investors. BRCM, in its discretion, may waive or reduce the carried interest distributions as to all or any of the investors in the Fund.

The carried interest distributions for each Fund generally are paid out as distributions of the net cash proceeds attributable to dispositions of portfolio investments of the Fund.

The amount of, and the manner and calculation of, the management fees and carried interest distributions for each Fund are set forth in the governing documents and Memorandum of the Fund.

### **B. Other Fees and Expenses**

Generally, a Fund bears all legal, accounting and other fees, costs and expenses of and incidental to organizing and funding the Fund and the general partner and manager of the Fund up to a certain amount as set forth in the Offering Documents of the Fund. A Fund will also bear the operational costs and expenses of the Fund. Such costs and expenses include, but are not limited to:

- expenses of organizing the Fund;
- legal, auditing, custodial, consulting, financing and accounting fees and expenses of the Fund;
- expenses associated with preparation of the Fund's financial statements, reports to Fund investors and tax returns;
- out-of-pocket expenses and other expenses incurred in connection with the operation of the Fund under the laws of the jurisdiction in which it is organized;
- out-of-pocket expenses of transactions not consummated;

- expenses of appraisers and consultants;
- expenses of litigation and indemnification;
- insurance premiums;
- expenses of advisory committee meetings and meetings of the Fund investors;
- other expenses associated with the acquisition, holding and disposition of the Fund's portfolio investments including extraordinary expenses;
- any taxes, fees or other governmental charges levied against the Fund; and
- costs of dissolving and winding up the Fund.

Fund investors may also bear a portion of any fees or expenses charged by any special purpose vehicles that have been formed to facilitate portfolio investments by the Funds or their investors for tax, regulatory or economic purposes. BRCM may, at its discretion, choose to pay or reimburse the Fund for all or any portion of such expenses.

Although BRCM does not generally utilize the services of broker-dealers for Fund transactions, in the event it chooses to use a broker-dealer, the Funds will bear brokerage and transaction costs to the extent incurred. For additional information regarding brokerage and transaction costs, see the discussion below in “*Item 12. Brokerage Practices.*”

### **C. Sales Compensation**

BRCM will not receive sales commissions in connection with sales of interests in a Fund.

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

BRCM may receive performance-based compensation from certain Funds. Fees based on performance will only be charged in accordance with the provisions of Rule 205-3 under the Advisers Act. Performance-based compensation may create an incentive for BRCM to cause a Fund to make investments that are riskier than it would otherwise make. In addition, since BRCM's performance-based compensation may be calculated on a basis which includes unrealized appreciation of the assets held by a Fund, it may be greater than if such compensation were based solely on realized gains.

In the event that some Funds are charged performance-based compensation but not others, a conflict may arise where BRCM has an incentive to treat some Funds preferentially as compared to others because those Funds pay performance-based compensation or because BRCM or one of its portfolio managers or affiliates has an interest in the Fund. BRCM has adopted a policy to allocate portfolio transactions and investment opportunities across multiple Funds on a fair and equitable basis over time. All eligible Funds that can participate in a transaction share the same price on a pro rata allocation basis in an attempt to mitigate any conflict of interest. Investment opportunities are allocated among similarly managed Fund portfolios to maintain consistency of portfolio strategy, taking into account cash availability, investment restrictions and guidelines, and portfolio composition.

Since management fees and performance-based compensation paid to BRCM by certain funds are based on the net asset value of the Fund, a conflict may also arise when BRCM or a related person is valuing the assets held by the Fund. Assets will generally be valued at fair value by BRCM or a non-related person in accordance with U.S. generally accepted accounting principles ("GAAP").

BRCM may manage certain Funds on a side-by-side basis. Potential conflicts of interest may exist when BRCM buys or sells securities for Funds. BRCM has adopted policies and procedures with the aim to ensure the fair and equitable treatment of all Funds managed side-by-side by BRCM.

BRCM's portfolio managers may manage multiple portfolios for various Funds. When a portfolio manager manages more than one Funds, a potential conflict exists for the portfolio manager to intentionally or unintentionally treat one Fund more favorably than another. This potential conflict can be most apparent when one portfolio has a higher fee or a different fee structure than another portfolio, including performance-based compensation. Another potential conflict may arise if BRCM manages Funds in which its principals and employees has interest on a side-by-side basis with other Funds without such interest. BRCM has internal review policies and oversight to ensure that no one Fund is intentionally or unintentionally favored at the expense of another.

## Item 7. Types of Clients

BRCM serves as investment manager to the following Funds: BRC Emerging Managers Fund of Funds, LP, a Delaware limited partnership, BRC Partners Opportunity Fund, LP, a Delaware limited partnership, MKCA Opportunity Fund, LLC, a Delaware limited liability company, GACP I, L.P., a Delaware limited partnership, and GACP II, L.P., a Delaware limited partnership.

BRCM generally requires investors in a Fund to make a minimum initial investment as specified in the Fund offering memorandum; however, BRCM may, in its sole discretion, accept lesser amounts or waive the minimum investment required. Investors in a Fund must be “**Accredited Investors**,” as defined in Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the “**Securities Act**”), and, to the extent a Fund is charged performance-based compensation, investors in the Fund must be eligible to enter into a performance-based compensation arrangement under the Advisers Act. Notwithstanding the foregoing, BRCM may allow up to 35 individuals who are not Accredited Investors to invest in a qualifying Fund, pursuant to Rule 506 of Regulation D promulgated under the Securities Act. BRCM generally requires Fund investors to make representations concerning their financial sophistication and ability to bear the risk of loss of their entire investment in the Fund. The investor requirements may be waived by BRCM in its sole discretion.

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

BRCM offers services through a variety of Funds that invest in a wide range of investment opportunities. A summary of each type of Fund is below.

***Open-End Private Investment Funds.*** BRCM's open-end private investment vehicles (other than FOHFs) predominantly invest in publicly traded securities, with an emphasis on, but not limited to, small to mid-capitalization U.S. companies.

***Closed-End Private Investment Funds.*** BRCM currently advises two closed-end private investment fund which invests primarily in senior secured loans and second lien secured loans of middle market public and private U.S. companies.

***Fund of Hedge Funds.*** BRCM's strategy regarding the FOHFs it manages involves investing in a diversified group of underlying private investment funds, including private investment funds and other investment opportunities managed by BRCM.

Information regarding the specific investment strategies and methods of investment analysis with respect to each of the above programs is provided below.

### **A. Methods of Analysis and Investment Strategies**

#### Open-End Private Investment Funds (non-FOHF)

Investments for each Client are identified and selected by BRCM. The cornerstone of BRCM's investment process is a disciplined investment approach characterized by fundamental (bottom-up) analytical research of individual stocks. BRCM's analysis of possible investments generally includes an analysis of financial and accounting information about the company available to BRCM, management inquiries and industry studies. BRCM also analyzes the corporate governance and related legal issues of a company. BRCM's core investment thesis is that by focusing on select small-capitalization companies, a sector which BRCM has substantial knowledge accumulated over a number of years, BRCM will be able to quickly identify business trends or opportunities to narrow valuation gaps that will facilitate opportunistic investing. BRCM may take an activist approach with respect to an investment to encourage the company's management to make operational or financial changes to unlock value in the company. BRCM may also invest a portion of a Client's assets in private placement or otherwise illiquid securities, including by acquiring all or a control position in a company through an acquisition or otherwise. BRCM believes that its Clients can benefit from proper diversification of risk while maintaining a discipline of individual stock selection based on a systematic identification process.

***Investment in securities involves risk of loss that investors in a Fund or Account Clients should be prepared to bear. There can be no assurance that an Account Client's investment strategies will be achieved. Further, many of the investment techniques and activities described above are high risk activities that could result in substantial losses under certain circumstances.***

#### Open-End Private Investment Funds (FOHF)

BRCM, as general partner of a FOHF, will seek to diversify the FOHF's capital investments by allocating capital to a select group of emerging private investment fund managers, including hedge fund managers, that employ various investment strategies, including, but not limited to: convertible arbitrage, merger arbitrage, capital structure arbitrage, equity long/short, long biased, equity market neutral, short biased, distressed, global macro, managed futures, and master limited partnerships. BRCM seeks to achieve consistent returns by identifying, researching and, in some cases, partnering with, premier emerging fund managers and by conducting due diligence on each Portfolio Fund. BRCM intends to identify and allocate capital to emerging managers of funds that focus on achieving superior returns with low correlation to the market. BRCM intends to diversify the FOHF's investments by allocating capital to managers employing various investment styles including industry sector specialties, market capitalization and

differences in investment time horizons. Notwithstanding the foregoing, the FOHF does not follow a rigid investment policy and is not restricted from participating in any market, strategy or investment. BRCM reserves the right to modify and adjust its investment program as may be necessary. Accordingly, the FOHF's assets may be allocated among whatever investment strategies BRCM, as the general partner, considers appropriate under prevailing market conditions. The FOHF may not be widely diversified among Portfolio Funds and among investment strategies.

BRCM manages and constructs a FOHF's investment strategy by first developing a thematic view of the markets by analyzing economic trends, investor psychology and market fundamentals and use this "big-picture" view to serve as a basis for Portfolio Fund manager allocations. BRCM will generally identify equity fund managers with track records of uncovering companies that are mispriced or misunderstood in the market while focusing on capital preservation in abnormal markets. BRCM will, in its discretion, also allocate the FOHF's capital to emerging fund managers with no prior fund management experience or track record. BRCM will leverage contacts in the industry, consultants, vendors, capital introduction/third party marketers, brokers/prime brokers, investors and other hedge funds to identify emerging equity fund managers.

Once acceptable Portfolio Fund Managers have been identified, BRCM will generally allocate a majority of a FOHF's assets to "core managers". "Tactical allocations" will be considered for the remaining portion of the FOHF's assets. The FOHF's "core managers" will generally consist of managers who demonstrate less volatile returns and greater diversification of positions. The "core managers" styles may include value investors, income-based funds and market-neutral strategies. Portfolio Fund Managers that may be selected for "tactical allocations" may have greater position concentration, slightly higher volatility and longer investment duration. Portfolio Fund Managers that may be selected for a "tactical allocation" may pursue aggressive growth, activist and special situation strategies. By combining selected "core managers" and "tactical allocations," BRCM intends to mitigate tail risk and attempt to provide investors with steady returns regardless of the performance of the broader markets.

BRCM believes that the utilization of a diverse group of Portfolio Funds will help minimize overall risk to a FOHF while maximizing the ability to achieve the consistent realization of the FOHF's investment objective over time. The FOHF does not intend to employ debt or margin in purchasing interests in Portfolio Funds. The Portfolio Fund managers may, however, employ debt or other forms of financial leverage, which may have a material impact on the FOHF's performance.

***Investing in securities involves a risk of loss that investors in a FOHF should be prepared to bear. There can be no assurance that a FOHF will be able to make and realize any particular investment or generate returns. Investors in a FOHF should carefully consider, among other factors, the following material risks involved with BRCM's investment strategies.***

Investors in a FOHF are requested to refer to the Offering Documents of the applicable FOHF for more complete information on investment strategies employed and the corresponding risks associated with such investment strategies. While BRCM intends to manage each FOHF pursuant to the investment strategy described in the offering documents of the applicable FOHF, BRCM has wide latitude to act upon any investment strategy or to change any investment strategy to achieve the investment objective of the FOHF, all without obtaining the consent of investors. Prospective investors should carefully read the Offering Documents of the applicable FOHF and consult with their own counsel and advisers as to all matters concerning an investment in the FOHF.

#### Closed-End Private Investment Funds (non-FOHF)

Investments for each Client are identified and selected by BRCM. BRCM's investment process involves conducting rigorous and comprehensive due diligence, robust transaction sourcing and origination, disciplined income-oriented investment, and the use of proprietary in-house channels to identify significant investment opportunities in debt securities including, senior secured loans, second lien loans, unitranche loans, first-in-last out loans, bridge loans, and debtor-in-possession loans. BRCM's core investment thesis is that by targeting public and private companies in the middle market that generate between \$10 million and \$500 million in annual revenues at the time of investment, BRCM will be able to capitalize on the expertise it has developed over a number of years to overcome competition

and generate robust returns. BRCM will invest in opportunities that involve targets that have significant asset coverage and/or enterprise values. BRCM will also invest in opportunistic situations and in companies that have defensible long-term business models.

## **B. Material Risks Associated With Investment Strategies and Portfolio Investments**

### **Investment Strategy Risks**

Acquiring interests in the Funds (including the FOHFs) is intended for sophisticated investors who can accept a high degree of risk in their portfolio, do not need regular current income from their investment with BRCM and can accept a potential loss of their entire investment. Investment risks specific to the investment strategy of each Fund (including each FOHF) are described in the Offering Documents of the Fund.

#### Investment Strategy Risks for Open-End Private Investment Funds

Such risks may include, but are not limited to, the following:

**Concentration.** Client accounts may hold a relatively small number of securities. Losses incurred in such securities could have a disproportionate effect on the account's overall financial condition.

**Portfolio Management.** The performance of a Client account depends on the skill of BRCM and its portfolio manager(s) in making appropriate investment decisions.

**Leverage.** The use of leverage by buying securities on margin or use of certain derivatives is a speculative technique that involves special risk considerations. Interest costs on borrowings may fluctuate with changing market rates of interest and may partially offset or exceed the return earned on borrowed funds. Interest on borrowings will be an expense of a Client account and will affect the investment performance of the account. To the extent a Client account is leveraged, the value of its assets will tend to increase more when its portfolio securities increase in value, and to decrease more when its portfolio securities decrease in value, than if its assets were not leveraged.

**Activist Investing.** There can be no assurance that the management of any company in which a Client invests will agree or acquiesce to BRCM's involvement in the affairs of the company, or that the strategies that BRCM hopes to implement will be effective. Portfolio companies may be hostile to BRCM's activities and may respond to BRCM's proposals by litigation or other defensive measures. Such measures may adversely affect the value of a Client's investment and may result in high transaction expenses, particularly if BRCM resorts to measures to protect the value of a Client's investment that involve litigation or shareholder governance activities.

**Short Selling.** Short sales that are not part of a hedging strategy are speculative and involve special risk considerations. Since a short seller in effect profits from a decline in the price of the securities sold short without the need to invest the full purchase price of the securities on the date of the short sale, returns will tend to increase more when the securities sold short decrease in value, and to decrease more when the securities sold short increase in value, than would otherwise be the case if the short seller had not engaged in such short sales. Short sales theoretically involve unlimited loss potential as the market price of securities sold short may continuously increase.

**Portfolio Turnover.** Buying and selling securities generally involves some expense to a Client account, such as commissions and other transaction costs. Generally, the higher an account's portfolio turnover, the greater its brokerage costs and the greater the likelihood that it will realize taxable capital gains. Increased brokerage costs may adversely affect an account's performance. The advisory activities of each Client, absent an express investment restriction, may involve a high level of trading, which would generate substantial transaction costs.

**Highly Volatile Markets.** The prices of investments held by a Client account can be highly volatile. Price movements of forward contracts, futures contracts and other derivative contracts in which BRCM may invest Client assets are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies.

**Hedging Strategies.** Special risks are associated with the use of options, futures contracts and swaps as hedging techniques, including fluctuations in the volatility of the underlying security, fluctuations in prevailing interest rate and a lack of correlation between price movements in the hedging vehicle and in the portfolio securities being hedged which may result in a loss on both the hedged securities and the hedging vehicle. In addition, a decision as to whether, when and how to use a particular hedging strategy involves the exercise of skill and judgment which are different from those needed to select portfolio securities, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior, currency fluctuations or interest rate trends. If BRCM is incorrect in its forecasts relating to a hedge, a Client may be in a worse position than if BRCM had not engaged in the hedging transaction. The potential loss incurred by a Client in swaps, futures and writing options on futures is unlimited. There can be no assurance that a liquid market will exist at a time when BRCM, on behalf of a Client, seeks to close out an option position or futures or swap contract.

**Dependence on Key Personnel.** The success of a Client account will be highly dependent on the expertise and performance of BRCM's senior investment professionals. There can be no assurance that these senior investment professionals will continue to be associated with BRCM or any of its affiliates throughout the life of a Fund or Investment Company or during the term of the investment advisory agreement with an Account Client, as they are under no contractual obligation to remain with the BRCM or any of their affiliates for any specified period of time. The loss of the services of one or more of these individuals could have a material adverse effect on the performance of BRCM as well as the Client accounts.

**Margin Risk.** BRCM may direct the purchase of securities for Clients with money borrowed from the Client's brokerage account. This allows the Client to buy more stock than the Client would be able to with the cash that is available, and allows the Client to purchase new or additional securities for the Client without selling other holdings. Leverage increases a portfolio's risk as price swings are amplified in a margin account and Clients can lose more funds than deposited if the value of securities decline.

**Options Risks.** The investment strategies used to manage accounts may include long-term purchases, short-term purchases, selling securities within thirty days, short sales, margin transactions, and option writing. An option holder runs the risk of losing the entire amount paid for the option in a relatively short period of time. This risk reflects the nature of an option as a wasting asset which becomes worthless when it expires. An option holder who neither sells their option in the secondary market nor exercises it prior to its expiration will necessarily lose their entire investment in the option. An option writer may be assigned an exercise at any time during the period the option is exercisable.

Starting with the day it is purchased, an American-style option is subject to being exercised by the option holder at any time until the option expires. This means that the option writer is subject to being assigned an exercise at any time after they have written the option until the option expires or until they have closed out their option position in a closing transaction. By contrast, the writer of an European-style or capped option is subject to assignment only when the option is exercisable or, in the case of a capped option, when the automatic exercise value of the underlying interest hits the cap price. For more information regarding the risks of options, please read the 'Characteristics and Risks of Standardized Options' brochure, which can be found at [www.optionsclearing.com](http://www.optionsclearing.com). The information available on, or that can be accessed through, [www.optionsclearing.com](http://www.optionsclearing.com) is not part of this Form ADV.

**Market Risk.** Stock prices are volatile and are affected by the real or perceived impacts of such factors as economic conditions and political events. The performance of a Client account's investments could be adversely affected by macroeconomic factors, including general economic conditions affecting capital markets and participants therein (such as the obligations on or issuers of the Client's investments). Such macroeconomic factors include (i) the economic downturns and uncertainties affecting economies and capital markets worldwide, (ii) continuing military conflicts, incidents of terrorism and domestic unrest occurring outside the United States and other consequences thereof and similar events, (iii) concerns about financial performance, accounting and other issues relating to various companies and (iv) recent and proposed changes to laws and regulations affecting the financial industry, including those related to banking, credit default swaps and other derivatives, mortgage lending, accounting and reporting standards and other exogenous factors in general.

***Evolving and New Investment Approaches.*** BRCM's investment approach and trading techniques are continually evolving. BRCM is not restricted in developing or incubating new strategies or approaches and may deploy capital in accordance with such new strategies and approaches and consistent with its fiduciary duties, even though BRCM has limited experience in the type of markets or instruments involved. The strategies and approaches developed by BRCM may not be successful and the resources devoted to the implementation of new approaches or strategies may diminish the effectiveness of BRCM's implementation of its established approaches or strategies.

***No Assurance of Investment Return.*** BRCM cannot provide assurance that it will be able to choose, make or realize investments for a Client account in any particular company or portfolio of companies. There can be no assurance that a Client account will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the types of companies and transactions described herein. The marketability and value of any such investment will depend upon many factors beyond the control of BRCM. The expenses of a Client account may exceed its income.

***Macroeconomic Factors.*** The performance of a Client account's investments could be adversely affected by macroeconomic factors, including general economic conditions affecting capital markets and participants therein (such as the obligations on or issuers of the Client's investments). Such macroeconomic factors include (i) the economic downturns and uncertainties affecting economies and capital markets worldwide, (ii) continuing military conflicts, incidents of terrorism and domestic unrest occurring outside the United States and other consequences thereof and similar events, (iii) concerns about financial performance, accounting and other issues relating to various companies and (iv) recent and proposed changes to laws and regulations affecting the financial industry, including those related to banking, credit default swaps and other derivatives, mortgage lending, accounting and reporting standards and other exogenous factors in general.

***Foreign Investments.*** Investments may be made in non-U.S. securities and other instruments denominated in non-U.S. currencies and/or traded outside of the United States. Such investments require consideration of certain risks not typically associated with investing in United States securities or property. Such risks include unfavorable currency exchange rate developments, restrictions on repatriation of investment income and capital, imposition of exchange control regulation by the United States or foreign governments, confiscatory taxation and economic or political instability in foreign nations. In addition, there may be less publicly available information about certain non-U.S. companies than would be the case for comparable companies in the United States, and certain non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies.

***Small to Medium Cap Stocks.*** Client accounts may have significant investments in smaller-to-medium sized companies with market capitalizations of less than \$1 billion. These securities often involve greater risks than the securities of larger, better-known companies.

***Debt Securities.*** Client accounts may invest in unrated or low grade debt securities which are subject to greater risk of loss of principal and interest than higher-rated debt securities. Client accounts may invest in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. Client accounts may invest in debt securities which are not protected by financial covenants or limitations on additional indebtedness. In addition, evaluating credit risk for foreign debt securities involves greater uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult.

#### Investment Strategy Risks for Closed-End Private Investment Funds

Such risks may include, but are not limited to, the following:

***Lack of Sufficient Investment Opportunities.*** It is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring private equity transactions is highly competitive and involves a high degree of uncertainty. There can be no assurance that a Fund will be able to locate, consummate and exit investments that satisfy a Fund's rate of return objectives or realize upon

their values or that it will be able to invest fully its committed capital. However, investors will be required to pay annual management fees during the investment period based on the full amount of their commitments.

***Limitations of Due Diligence.*** BRCM's due diligence may not reveal all of an investment's liabilities and may not reveal other weaknesses in its business. There can be no assurance that BRCM's due diligence processes will uncover all relevant facts that would be material to an investment decision. Before making an investment in, or a loan to, a company, BRCM will assess the strength and skills of the company's management and other factors that it believes are material to the performance of the investment.

***Illiquidity; Lack of Current Distributions.*** An investment in a Fund should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will occur only upon the partial or complete disposition of an investment. While an investment may be disposed at any time, it is not generally expected that this will occur for a number of years after the initial investment. It is unlikely that there will be a public market for the investments held by a Fund at the time of their acquisition. A Fund will generally not be able to sell the securities of portfolio companies publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. In addition, in some cases a Fund may be prohibited by contract or regulatory reasons from disposing of certain investments for a period of time. Before any investment is sold, there may be no current return on the investment. Furthermore, the expenses of operating a Fund (including the annual management fee payable to the manager) may exceed its income, thereby requiring that the difference be paid from a Fund's capital.

***Material, Non-Public Information.*** By reason of their responsibilities in connection with other activities of BRCM and its affiliates, certain employees of BRCM and its affiliates may acquire confidential or material nonpublic information or be restricted from initiating certain transactions. A Fund will not be free to act upon any such information. Due to these restrictions, a Fund may not be able to initiate a transaction that it otherwise might have initiated.

***Reliance on the Adviser.*** Control over the operation of a Fund will be vested entirely with BRCM, and a Fund's profitability will depend largely upon the business and investment acumen of BRCM's principals. The loss of service of one or more of the principals could have an adverse effect on a Fund's ability to realize its investment objectives.

***Reliance on Portfolio Company Management.*** The performance of a Fund may depend on the skill of a portfolio company's management team. Although BRCM will be responsible for monitoring the performance of each investment and intends to invest in companies operated by strong management, the day-to-day operations of portfolio companies will be the responsibility of the portfolio companies' management teams.

***Need for Follow-On Investments.*** Following its initial investment in a given portfolio company, a Fund may be called upon to provide follow-on funding for a portfolio company or may have the opportunity to increase its investment in a successful portfolio company. There is no assurance that a Fund will make these follow-on investments or that a Fund will have sufficient funds to make all or any of such investments. Any decision by a Fund not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment, may diminish a Fund's ability to influence such portfolio company's future development or may result in a lost opportunity for a Fund to increase its participation in a successful operation.

***Investments in Less Established Companies.*** A Fund may invest in smaller, less established or development stage companies. Investments in such companies may involve greater risks than are generally associated with investments in more established companies. Less established and development stage companies tend to have a lower capitalization and fewer resources and, therefore, are often more vulnerable to financial failure. Such companies may also have shorter operating histories on which to judge future performance.

***Risk of Inaccurate Projections.*** Projected operating results of a company in which a Fund invests normally will be based primarily on financial projections prepared by each company's management. The profitability of a Fund's

investment will depend significantly on the accuracy of projections and the degree to which the results set forth in the projections differ from actual results.

***Dilution from Subsequent Closings.*** Investors subscribing for interests at subsequent closings will participate in existing investments of a Fund, diluting the interest of existing investors therein. Although later-admitted investors will contribute their *pro rata* share of previously-made capital contributions (plus an additional amount thereon), there can be no assurance that this payment will reflect the fair value of the Fund's existing investments at the time such additional investors subscribe for interests.

#### Special Investment Strategy Risks for Open-End Private Investment Funds

Such risks may include, but are not limited to, the following:

***Restrictions on Transfers and Withdrawals – The Lock-Up Period.*** An investment in a Fund provides limited liquidity since the interests in the Fund are not freely transferable and investors have limited rights of withdrawal. In particular, capital contributions may be subject to a one (1) year lock-up period or longer. An investment in a Fund is suitable only for sophisticated investors who have no need for more immediate liquidity in this investment.

***Restrictions on Transfers and Withdrawals – Suspension of Withdrawals.*** The right of any investor to withdraw monies from a Fund is subject to (i) the provision by the Fund's general partner for (a) Fund liabilities in accordance with GAAP and (b) reserves for contingencies; and (ii) if the Fund is a FOHF, the limitation on or suspension of the FOHF's ability to withdraw capital from the Portfolio Funds. In addition, the general partner of a Fund may, in its

sole discretion during the existence of any state of affairs that, in its opinion, make the determination that the price, value or disposition of the Fund's investments is impractical or prejudicial to the non-withdrawing investors.

***Business and Regulatory Risks of Investment Funds.*** Legal, tax and regulatory changes could occur during the term of a Fund (including a FOHF) that may adversely affect the Fund, the general partner of a Fund and/or the Portfolio Funds, as applicable. The regulatory environment for private investment fund, including hedge funds and hedge fund of funds, is evolving, and changes in the regulation of these funds may adversely affect the value of investments held by the Fund and/or Portfolio Funds. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. The effect of any future regulatory change on a Fund could be substantial and adverse.

**An investment in a Fund is speculative, and prospective investors should be aware that an investment in a Fund involves a high degree of risk. Accordingly, prospective investors should carefully consider the risk factors in this Brochure and the information in a Fund's offering documents. The foregoing summary does not purport to be a complete explanation of the terms, conditions and corresponding risks associated with an investment in a Fund, and is qualified in its entirety by a Fund's offering documents and related offering materials referenced therein. Prospective investors should read all of a Fund's offering documents relating to investing with BRCM.**

#### Special Investment Strategy Risks for FOHFs

Such risks may include, but are not limited to, the following:

***Conflicts of Interests in Allocating to Portfolio Funds.*** BRCM will determine the allocation of assets to the Portfolio Funds on whatever basis it deems appropriate. Such allocations may be made to Portfolio Funds with which BRCM, or its affiliated entities, has other business dealings and may create either an incentive or a disincentive for BRCM to reduce or eliminate the allocation to such Portfolio Fund.

***Investments in Portfolio Funds.*** Investing in a FOHF presents certain risks that are not present in a direct investment in a Portfolio Fund or similar hedge fund including, but not limited to, multiple layers of expenses and

fees, the lack of control over the Portfolio Funds by the general partner of the FOHF, the FOHF's reliance on the managers of Portfolio Funds for the FOHF's calculation of net asset value, the possibility of total failure of a Portfolio Fund, and the possibility of the suspension of an investor's right to withdraw from the FOHF as a result of a Portfolio Fund's suspension of its investor's right to withdraw therefrom. These and other risks of FOHF investing are discussed in more detail below and in the applicable FOHF's Offering Documents.

***Historical Performance of Portfolio Funds.*** The Offering Documents of a FOHF may provide that the FOHF's investors may receive information regarding the nature and identity of Portfolio Funds. Prospective investors are advised that the historical performance, if any, of any Portfolio Fund is not indicative of the future performance of those Portfolio Funds or the FOHF, nor may such historical performance be considered as a prediction or projection of the potential or future performance of the FOHF. Past performance is not an indicator of future results. The historical performance of the Portfolio Funds may not be considered as a substitute for the FOHF's and BRCM's lack of performance and operating history. Investing in a FOHF entails certain unique risks that must also be considered before investing. No assurance can be given that a FOHF will be successful in obtaining suitable Portfolio Fund investments or that, if the allocations to Portfolio Funds are made, the objectives of the FOHF will be achieved. Investors in a FOHF are advised that investing in securities involves risk of loss that investors should be prepared to bear.

***Failure of a Portfolio Fund.*** Although BRCM will carefully select the Portfolio Funds, it is possible a FOHF could lose all or a portion of its investment in a particular Portfolio Fund because of financial irregularities or trading losses. There are no requirements as to concentration or diversification imposed on BRCM with respect to the allocation of assets between and among Portfolio Funds, although a FOHF may intend to invest in a relatively diverse portfolio of Portfolio Funds. No assurance can be given that the failure of one or more Portfolio Funds will not have a material adverse effect on a FOHF's overall performance.

***Multiple Layers of Fees and Expenses.*** The management fee payable to BRCM will be in addition to the amounts indirectly payable by a FOHF as a limited partner to the Portfolio Fund Managers of the Portfolio Funds for fees, expense reimbursements and carried interests (*i.e.*, incentive allocations) with respect to such Portfolio Funds. Because of these multiple layers of expenses, a higher gross return will be required to be earned on the individual investment strategies being employed than an investor would need to realize if such allocations were undertaken on their own in order to achieve an equivalent return. A FOHF will be subject to management and performance-based allocations by its Portfolio Funds even if the FOHF's overall returns are negative.

***Lack of Management Control Over the Portfolio Funds.*** BRCM will not have the right to participate in the management, control or operation of the Portfolio Funds or to remove the Portfolio Fund Managers thereof. In addition, a FOHF may have limited opportunities to evaluate the relevant economic, financial and other information that will be utilized by the Portfolio Funds in their selection, structuring, monitoring and disposition of investments. BRCM's lack of control may also limit its ability to ensure that a Portfolio Fund Manager remains focused and consistent with its stated investment strategy. As a result, BRCM will be unable to prevent, restrict or control a Portfolio Fund Manager's deviation from the Portfolio Fund's investment strategy or "*style drift*" and any losses resulting therefrom. The lack of control experienced by BRCM could result in substantial losses that might otherwise be avoidable at the Portfolio Fund level which, in turn, could have a material adverse impact on the performance of a FOHF.

***Emerging Manager Risk.*** A FOHF's investment program may be focused on allocating FOHF capital to a select group of new or emerging Portfolio Fund Managers. BRCM may allocate to a new or emerging manager with little or no prior history of performance or experience in managing a fund. Certain Portfolio Funds may have a limited operating history on which BRCM can evaluate the potential performance of the Portfolio Fund. Further, due to lack of experience, new and emerging Portfolio Fund Managers may be more likely to deviate from the Portfolio Fund's stated investment strategy or be unable to accurately or adequately evaluate and manage the risks associated therewith. There can be no assurance that BRCM will be able to successfully identify emerging Portfolio Fund Managers that will be appropriate for a FOHF's investment strategy and objective or that will be able to achieve or sustain profitability.

**Risk Management Control Issues.** Portfolio Fund Managers may use proprietary investment strategies that are not fully disclosed to BRCM. These strategies may involve risks under certain market conditions that have not been anticipated by BRCM. A FOHF's inability to control the frequency, quantity or quality of information obtained from Portfolio Funds regarding their investment portfolios may make it difficult or impossible for BRCM to implement its risk management strategies as intended. There can be no assurance or guarantee that a FOHF will be profitable even if BRCM is able to implement its risk management strategies as intended.

**Withdrawal of Fund Capital from Portfolio Funds.** A FOHF will likely be subject to significant withdrawal restrictions imposed by each of its Portfolio Funds. As a result, investors in a FOHF will also be subject to significant withdrawal restrictions imposed by BRCM as a direct result of the FOHF's inability to withdraw capital from the Portfolio Funds and/or the restrictions imposed by such Portfolio Funds. Therefore, in certain circumstances, BRCM may not be permitted to withdraw invested FOHF assets from a particular Portfolio Fund at a time which would be most advantageous to the FOHF or at a time in which withdrawals are permitted under the terms of the FOHF's LPA. In this regard, BRCM has the right to suspend in whole or in part, certain withdrawal rights of the investors to the extent the FOHF is unable to obtain liquidity from its investments in one or more of the Portfolio Funds. Restrictions on withdrawals at the level of the individual Portfolio Funds could have a material adverse effect on a FOHF, as well as the ability of investors to liquidate their investments in the FOHF during permitted withdrawal periods.

**Calculation of Net Asset Value.** BRCM's ability to assess the accuracy of the valuation of a FOHF's portfolio of Portfolio Funds is limited because the FOHF will not always have access to current information regarding the composition of the Portfolio Funds' portfolios. The net asset values received by BRCM from the Portfolio Funds will typically be estimates only, subject to revision through the end of the annual audit for such Portfolio Funds. In addition, should a Portfolio Fund suspend withdrawals, allocate to a side pocket or otherwise suspend or delay calculation of its net asset value for any reason, a FOHF will be unable to calculate its own net asset value. Any such occurrence may cause delays in the filing of the FOHF's and the investors' tax returns. Revisions to a FOHF's gain and loss calculations will be an ongoing process, and no net capital appreciation or depreciation figure can be considered final until the FOHF's annual audit is completed.

**The FOHFs and certain Portfolio Funds Are Not Registered Under the Investment Company Act.** Neither the FOHFs nor certain Portfolio Funds selected by BRCM are registered under the Investment Company Act and thus are (i) different in many ways from open-end investment companies ("**Mutual Funds**") so registered and (ii) not subject to the provisions of the Investment Company Act designed for investor protection.

**Turnover.** Portfolio Funds may invest on the basis of certain short-term market considerations. The turnover rate within the Portfolio Funds could be significant, potentially involving substantial brokerage commissions, fees and other transaction costs. A FOHF has no control over this turnover. In addition, the withdrawal of a FOHF from a Portfolio Fund could also involve expense to the FOHF under the terms of the FOHF's subscription with the Portfolio Fund. Frequent trading of securities by a Portfolio Fund Manager can negatively impact the investment performance of a Portfolio Fund, and therefore, as a result, the investment performance of the FOHF, particularly through increased brokerage commissions and other transaction costs and taxes.

**Portfolio Fund Manager Misconduct or Bad Judgment.** It will be difficult, and likely impossible, for a FOHF's general partner to protect the FOHF from the risk of Portfolio Fund Manager fraud, misrepresentation or material strategy alteration. The Portfolio Funds generally are private and have not registered their securities or investment adviser operations under federal or State laws.

**Dependence on Key Principals of Portfolio Fund Managers.** Some of the Portfolio Fund Managers to whom a FOHF may allocate capital may consist of only one or a limited number of principals. If the services of any of such principals became unavailable, the FOHF might sustain losses.

**Trading Strategies May Not Be Successful.** There can be no assurance that any of the trading strategies used by the Portfolio Funds in which a FOHF is invested will produce profitable results, and the past performance of the business ventures or investment funds managed by affiliates of BRCM, the Portfolio Funds and the Portfolio Fund

Managers into which a FOHF will invest are not indicative of the future profitability of the FOHF or the Portfolio Funds. Profitable investing is often dependent on anticipating trends or trading patterns. In addition, markets experiencing random price fluctuations, rather than defined trends or patterns, may generate a series of losing trades. There have been periods in the past when the markets have been subject to limited and ill-defined price movements, and such periods may recur. Any factor that may lessen major price trends (such as governmental controls affecting the markets) may reduce the prospect for future trading profitability. Any factor which would make it difficult to execute trades, such as reduced liquidity or extreme market developments resulting in prices moving the maximum amount allowed in a single day could also be detrimental to profits or cause losses. Increases in margin levels on securities may occur in the future. Such increased margin and other potential regulatory changes may adversely impact the trading strategies. No assurance can be given that the trading techniques and strategies employed by the Portfolio Fund Managers will be profitable in the future or will be able to avoid incurring substantial losses.

***Risk of Litigation.*** The Portfolio Fund Managers selected by a FOHF might become involved in litigation as a result of investments made by Portfolio Funds. Under such circumstances, the FOHF could be named as a defendant in a lawsuit (including but not limited to claw-back actions) or regulatory action.

***Misuse of Confidential Information.*** In trading public securities, there are consequences for trading on insider information, and the BRCM expects that Portfolio Fund Managers will use only public information. Portfolio Fund Managers may be charged with misuse of confidential information. If that were the case, the performance records of these Portfolio Fund Managers could be misleading. Furthermore, if a Portfolio Fund Manager or entity with which a FOHF invests has engaged in the past or engages in the future in such misuse, the FOHF could be exposed to losses, fines, and penalties.

***Other Clients of the Portfolio Fund Managers.*** The Portfolio Fund Managers utilized by a FOHF have responsibility for investing the funds allocated to them. The Portfolio Fund Managers also manage other accounts (including other accounts in which the Portfolio Fund Managers may have an interest) and may have financial and other incentives to favor such accounts over the Portfolio Fund in which the FOHF is an investor. When investing on behalf of other clients, as well as the Portfolio Fund, Portfolio Fund Managers must allocate their resources, as well as limited market opportunities. Doing so not only could increase the level of competition for the same trades the Portfolio Fund might otherwise make, including the priorities of order entry, but also could make it difficult or impossible to take or liquidate a particular position at a price indicated by a Portfolio Fund Manager's strategy.

***Availability of Portfolio Funds.*** A number of the Portfolio Funds in which a FOHF may seek to invest may significantly limit investor access due to investor demand exceeding Portfolio Fund size or capacity, or for other reasons. These Portfolio Funds may include funds which may be included in other investment products or accounts managed by BRCM. There can be no assurance that a FOHF will be permitted to invest, or to invest as much as BRCM would otherwise recommend, in each Portfolio Fund in which it may seek to invest, and any such failure to gain admittance to, or to be permitted to invest as much as BRCM would recommend in, one or more such Portfolio Funds could adversely affect the investment performance of the FOHF. Although BRCM may obtain an agreement from a Portfolio Fund Manager to keep a certain amount of "***capacity***" available to BRCM, BRCM may not be able to make all of that capacity available to a FOHF.

***Changes in Allocations.*** BRCM expects from time to time to change the percentage of a FOHF's assets allocated to each Portfolio Fund, as well as to terminate and retain new Portfolio Fund Managers from time to time. These changes will be made in BRCM's discretion. A FOHF's success will depend on BRCM's ability to identify and allocate the FOHF's assets among new and existing Portfolio Funds.

***Valuations.*** BRCM will be required to rely on the Portfolio Fund Managers' valuations of a FOHF's investments in their respective Portfolio Funds. Portfolio Fund Managers, from time to time, revise their valuations and valuation methods, sometimes materially. Investments for which market quotations are not available will be valued by BRCM at such values as it may reasonably determine and may not be independently valued or verified by a third party. Such valuations may affect the amount of the management fees paid to BRCM.

***Withdrawal Date Valuation of Portfolio Funds Without Corresponding Withdrawal Rights.*** When interests in a FOHF are withdrawn, the withdrawal value will reflect, among other things, the net asset values of the FOHF's investments in Portfolio Funds as of the withdrawal date. However, certain Portfolio Funds may not permit the FOHF itself to make the same withdrawals as investors in the FOHF may make from the FOHF. The FOHF will bear the risk of any declines, as well as have the profit potential of any increases, in the net asset value of its existing investments in such Portfolio Funds from the date as of which a withdrawing investor's capital account is valued until the FOHF is itself able to withdraw capital from such Portfolio Funds to reflect such withdrawal.

#### Special Investment Strategy Risks for Closed-End Private Investment Funds

Such risks may include, but are not limited to, the following:

***Risk of Private Debt Investments.*** Debt instruments are subject to credit and interest rate risks. Credit risk refers to the likelihood that an obligor will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an obligor are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument and securities and other debt instruments which are rated by rating agencies are often reviewed and may be subject to downgrade. Interest rate risk refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) or directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

***Debt Obligations - Assignments and Participations.*** A Fund may occasionally acquire and hold interests in loans either directly (by purchase from the issuer or by assignment) or indirectly (by way of participation). Holders of participation interests are subject to additional risks not applicable to a holder of a direct interest in a loan. The purchaser of an assignment of a loan obligation typically succeeds to all the rights and obligations of the selling institution and becomes a lender under the loan or credit agreement with respect to the loan obligation. As a purchaser of an assignment, the Fund generally will have the same voting rights as other lenders under the applicable loan agreement. Assignments are, however, arranged through private negotiations between assignees and assignors, and in certain cases the rights and obligations acquired by the purchaser of an assignment may differ from, and be more limited than, those held by the assigning selling institution.

***Priority of Debt Instruments and Loans.*** A Fund may invest in secured debt issued by companies that have or may incur additional debt that is senior to the secured debt owned by the Fund. In the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of any such company, the owners of senior secured debt (*i.e.*, the owners of first priority liens) generally will be entitled to receive proceeds from any realization of the secured collateral until they have been reimbursed. At such time, the owners of junior secured debt (including, in certain circumstances, a Fund) will be entitled to receive proceeds from the realization of the collateral securing such debt. There can be no assurances that the proceeds, if any, from the sale of such collateral would be sufficient to satisfy the loan obligations secured by subordinate debt instruments. To the extent that a Fund owns secured debt that is junior to other secured debt, the Fund may lose the value of its entire investment in such secured debt.

***Default Risk.*** It is possible that the issuer of a note or other instrument in which the Partnership invests may default on its debts in which case the Partnership may lose most or all of its investment in that instrument, thus subjecting the Partnership to significant loss. A significant downturn in the economy or a particular economic sector could have a significant impact on the business prospects of the companies with respect to which the Partnership is holding loans. Such adverse developments may adversely affect the ability of such borrowers to comply with their loan repayment obligations, as well as the ability of the Partnership's subsidiaries to obtain leverage at desired levels, cost or terms.

## Item 9. Disciplinary Information

None.

## Item 10. Other Financial Industry Activities and Affiliations

### ***BRCM's Ownership Structure and Affiliations; Conflicts of Interest***

The BRF group of companies includes a number of entities, related principally through common ownership. Clients should be aware that BRCM, B. Riley Securities, Inc., a FINRA registered broker-dealer (formerly known as B. Riley FBR, Inc.) (“BRS”) B. Riley Wealth Management, Inc., a dual licensed broker-dealer and RIA (“BRWM”), and certain entities owned or controlled by or affiliated therewith (including all private investment funds managed by BRCM, and Great American Capital Partners, LLC (“GACP”), the general partner to GACP I and GACP II), are directly or indirectly owned by BRF and controlled by Bryant R. Riley, Chairman and Co-Chief Executive Officer of BRF. BRF is the sole owner of BRCM, BRS, and BRWM, and therefore has the ability to influence the management and operation of all of the above-mentioned entities.

On February 25, 2021, B. Riley Financial, Inc. (NASDAQ: RILY) (“BRF”), the parent company of B. Riley Capital Management, Inc. (“BRCM”), announced the completion of its acquisition of National Holdings Corporation (NASDAQ: NHLD) (“National”) and all of its subsidiaries. BRCM is therefore under common ownership and control with National including National’s subsidiaries which include: (i) National Securities Corporation, a FINRA registered broker-dealer; (ii) National Asset Management, an SEC registered investment adviser; (iii) Winslow, Evans & Crocker, a dually registered FINRA broker-dealer and SEC investment adviser; and (iv) Winslow Wealth Management, an SEC registered investment adviser.

While all of the above-described companies generally operate independently each other, each of these entities may utilize, to varying extents, BRF’s infrastructure, office space, administrative and executive employees, and resources. Certain resources are shared among BRCM BRWM, BRS, GACP and their respective affiliates, and may or may not be reimbursed.

BRCM intends to engage BRS to effectuate its Clients’ trading and investment activities and to act as placement agent in connection with the sale and distribution of interests in the funds, and to utilize BRS’s research reports which are generally published on a regular basis. As indicated above, some of BRCM’s portfolio managers are registered representatives of BRS. These affiliations, and associated conflicts of interest, are described throughout this Brochure.

Except as described above, BRWM operates independently from BRCM, although some employees of BRWM may also be dually licensed with BRCM and BRS.

Subject always to BRCM’s duty and policy to obtain the best execution of its Clients’ transactions, BRCM intends to direct substantially all of the Clients’ brokerage transactions to BRS. Further, BRS may make a market in the securities in which BRCM recommends one or more of its Clients should invest. In executing trades for a Client, BRS may charge the Client customary brokerage commissions or markups, fees and expenses in connection with the transaction. Consequently, BRS will share in a portion of the revenues normally and customarily generated by a broker-dealer from the securities transactions of the Clients. In relation to these activities, certain employees of BRCM are registered representatives of BRS. Although Clients may have accounts that trade at BRS, registered representatives that are also employees of BRCM may receive payment related to the execution of those trades.

BRCM has no obligation to effect any particular volume of transactions through BRS and BRCM must establish that the use of BRS is appropriate. In all cases in which portfolio securities transactions are directed to BRS (or to any other broker), BRCM will determine in good faith that the brokerage commissions or markups, fees and expenses charged in connection with such transactions are reasonable in relation to the value of the brokerage, research and other services provided by that broker, viewed in terms of either the specific transaction or BRCM’s overall responsibilities to its Clients. BRCM expects that any brokerage commissions paid to BRS are competitive while consistent with best execution; however, BRCM is not required to select the broker or dealer that charges the lowest transaction cost in connection with executing trades for a Client and brokerage charges and/or commissions may be higher if the Client chooses to execute through BRS.

BRCM intends to utilize BRS and BRWM as placement agent for one or more Funds. In connection with BRS and BRWM's role as placement agent to a Fund, BRS or BRWM's registered representatives may be paid a commission or finder fees by BRCM out of BRCM's fees earned advising the Fund. In addition to the Funds, BRS or BRWM will refer related limited partnerships or limited liability companies sponsored/managed by BRCM to potential investors, and, as a result, may receive a portion of the administrative or management fees paid to BRCM.

Additional information on referral arrangements with BRS, BRWM and their other affiliates is in "*Item 14 Client Referrals and Other Compensation.*"

BRS, BRCM and the IARs of BRCM, as well as BRCM's other affiliates use or will use BRS's proprietary research, asset allocation and manager search information provided by BRCM. Information on these services is in "*Item 4 Advisory Business.*" Research products or services provided to BRCM and/or its Clients by BRS may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities and other products or services (e.g., quotation equipment and computer-related costs and expenses) providing information to BRCM which enhances its investment decision-making performance. All investment advisory arrangements with related parties are conducted on an arm's length basis so as to neither advantage nor disadvantage other Clients or BRCM's related parties. In addition, BRCM and/or its Clients will receive copies of research products and/or services from BRS at the same time as BRS provides copies of such research products and/or services to other Clients. BRCM and/or its Clients will not be given preferential access to such research products and/or services by BRS.

BRCM may recommend that certain Clients invest in securities of issuers with which BRS has an investment banking relationship or seeks to do business. Accordingly, BRS and/or its affiliates may receive compensation for investment banking services or other similar services from the issuers of securities in which BRCM recommends that one or more its Clients should invest. Therefore, BRCM could also have an incentive to recommend Clients invest in securities of issuers based on BRS's investment banking relationship with such issuers. BRCM will not recommend that a Client invest in the securities of an issuer with which BRS has an investment banking relationship or seeks to do business unless BRCM has determined that such recommendation is in the best interests of the Client.

BRCM may recommend that a FOHF Client invest in a Portfolio Fund or with a Portfolio Fund Manager that is a brokerage client of BRS, in which case BRS and/or its affiliates will receive commissions from such Portfolio Fund or Portfolio Fund Manager. Therefore, BRCM could also have an incentive to recommend that FOHF Clients invest in Portfolio Funds or with Portfolio Fund Managers based on BRS's brokerage relationship with such Portfolio Funds or Portfolio Fund Managers. However, there is no obligation or requirement that the Portfolio Funds or Portfolio Fund Managers trade through BRS and there will be no expectation that a Portfolio Fund or a Portfolio Fund Manager trade through BRS as a result of BRCM recommending that a FOHF Client invest in such Portfolio Fund or with such a Portfolio Fund Manager. BRCM will not recommend that a FOHF Client invest in a Portfolio Fund or with a Portfolio Fund Manager with which BRS has a brokerage relationship unless BRCM has determined that such recommendation is in the best interests of the FOHF Client.

BRCM may recommend that a Client invest in another Client. For example, BRCM may recommend that a FOHF Client invest in a Fund. When assets of a Client are invested in another Client, the investing Client will not pay any additional investment management fees in connection with such investment.

BRS has implemented procedures designed to address the foregoing conflicts of interest which include extensive written policies and protocols to ensure that all professionals and related persons within the firm are fully informed of the current regulations and that appropriate controls are in effect to address these conflicts and ensure compliance with all laws, rules and regulations related to the management of such conflicts of interest and the operation of its broker-dealer and asset management divisions.

ALL INVESTMENT ADVISORY AGREEMENTS ENTERED INTO BY BRCM WITH A CLIENT WILL BE EITHER PRECEDED THE PROVISION OF WRITTEN DISCLOSURES TO THE CLIENT REGARDING ANY MATERIAL CONFLICTS OF INTEREST RELATED TO BRCM, ITS REPRESENTATIVES, AND EMPLOYEES OR INCLUDE WRITTEN DISCLOSURES TO THE CLIENT REGARDING ANY MATERIAL CONFLICTS OF INTEREST RELATED TO BRCM, ITS REPRESENTATIVES, AND EMPLOYEES.



#### **A. Current or Pending Registration as a Broker-Dealer**

Certain management personnel and employees of BRCM are registered representatives of BRS. BRCM is a wholly-owned subsidiary of BRF which also indirectly owns BRS. Certain of the management of BRS, including BRCM's Chief Compliance Officer will be executives, employees, and/or registered representatives of BRS.

#### **B. Current or Pending Registration as a Futures Commission Merchant, Commodity Pool Operator, Commodity Trading Advisor, or an Associated Person of Same**

Neither BRCM nor any of its management persons are registered as or have a pending application to register as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities. However, BRCM has claimed an exemption from registration as a commodity pool operator with respect to one or more Funds.

#### **C. Material Relationships related to the Advisory Business**

Bryant R. Riley is the Chairman and Co-CEO of BRF, which owns BRCM, BRS, BRWM, and any affiliates under their control. BRCM is an investment adviser registered with the SEC that serves as the manager and investment adviser to one or more Funds.

Investors in a Fund must understand that one or more Funds were formed as an investment product to be managed by BRCM, and that BRCM does not intend to cause any Fund to terminate its investment management relationship with BRCM absent BRCM's liquidation or bankruptcy. However, BRCM has a fiduciary duty to act in the best interest of each Fund that it manages, and investors in each Fund have the right to withdraw from the Fund at any time subject to any notice requirement, lock-up period or other withdrawal limitations described in the Fund's Offering Documents. BRCM may from time to time enter into a side letter agreement with one or more investors in a Fund which may, among other terms, provide for (i) withdrawal rights that are more favorable than the rights granted to all other Fund investors, (ii) a reduced management fee and/or performance-based compensation, or (iii) greater or more frequent transparency with respect to the Fund.

Neither BRCM nor its related persons are obligated to allocate any specific amount of time or investment opportunities to a particular Client. BRCM and its related persons intend to devote as much time as they deem necessary for the conduct of each Client's operation and portfolio management, and will allocate investment opportunities in accordance with BRCM's trade allocation policy. Since BRCM and/or its related persons may serve as advisers, directors, members, investors, partners, officers, investment adviser representatives, or provide other services to clients of BRS and/or its affiliates, BRCM and/or its related persons may be given access to confidential information relating to portfolio funds or companies in which a Client may invest. As a result, the Client may be prohibited from engaging in transactions with certain entities, portfolio companies, or affiliates or purchasing or selling certain investments which may have an adverse effect on the Client.

Principals, officers and employees of BRCM ("**Covered Persons**"), members of their families and related persons of BRCM may invest, directly or indirectly, in a Fund, and may receive preferential fee terms in connection with such investments. BRCM may recommend to Clients the purchase or sale of securities in which it, or a Covered Person or related person thereof, has a financial interest. In addition, BRCM permits its Covered Persons to engage in personal securities transactions, subject to compliance with BRCM's Code of Ethics. For a general discussion of how resulting conflicts of interest are addressed, see discussion under "*Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*" below.

As discussed in Items 4 and 7 of this Brochure, BRCM serves as the investment manager to the Funds. We do not believe that contemporaneous management of the Funds causes a conflict because their respective strategies and or portfolio holdings are sufficiently different and allocations are made in accordance with the investment guidelines for each Fund, as applicable.

Certain Clients may maintain brokerage accounts at BRS for which a BRCM IAR, in his/her dual capacity as a registered representative for BRS, may serve as broker. BRCM does not receive any compensation related to these brokerage accounts and does not act in an advisory capacity with respect to these accounts.

**D. Selection or Recommendation of Other Advisers**

BRCM may for certain Clients (*e.g.*, FOHF clients) select other investment advisers following the investment program described in the Client's applicable Offering Documents or investment advisory agreement, as applicable; however, BRCM will not receive compensation from such advisers for such selections.

On May 8, 2020, BRCM and Great American Capital Partners, LLC ("GACP") entered into a subadvisory agreement with a non-affiliated entity, Whitehawk Capital Partners, LP, an SEC registered investment adviser ("Whitehawk"). Whitehawk has been appointed as the subadviser to GACP I and GACP II.

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

BRCM has adopted a Code of Ethics (the “*Code*”) that reflects BRCM’s fundamental position of placing the interests of BRCM’s Clients first at all times, and to ensure that BRCM fulfills its fiduciary duty to its Clients. The Code obligates BRCM and its related person to put the interests of Clients before their own interests and to act honestly and fairly in all respects in their dealings with Clients. BRCM’s personnel are also required to comply with applicable provisions of Federal securities laws and make prompt reports of any actual or suspected violations of such laws by BRCM or its employees. Accordingly, the Code reflects BRCM’s desire to detect and prevent not only situations involving actual or potential conflict of interests, but also those situations involving only an appearance of conflict or of unethical conduct.

The Code explains each person’s duty to maintain the confidentiality of BRCM’s proprietary information as well as a policy against insider trading and restrictions with respect to giving or receiving business-related gifts and entertainment or making political contributions to local, state and federal candidates for public office. The Code requires that the giving and receiving of business-related gifts and entertainment over a *de minimis* cost or value must be pre-approved by BRCM’s Chief Compliance Officer (“*CCO*”). Political contributions are generally prohibited with respect to candidates for local or state-local office and contributions to candidates for federal office require the pre-approval of the CCO.

Clients and prospective clients may obtain a copy of the Code of Ethics upon request by contacting BRCM via phone at 310-689-2220 or via email to [mmarkunas@brileyfin.com](mailto:mmarkunas@brileyfin.com).

The Code also contains BRCM’s personal trading policy which limits the ability of its employees to trade in securities for their personal accounts. The Code requires all personnel to report their personal trading activity to the CCO. The Code is designed to assure that personal securities transactions, activities and interests of employees will not interfere with (i) making decisions in the best interest of Clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. The personal trading policy applies to accounts of certain family members (including the spouse and minor children of a principal or employee who live in the same household). Pursuant to the Code, principals and employees must obtain approval prior to executing transactions in personal trading accounts, including transactions in private placements or initial public offerings, with certain limited exceptions for extremely liquid securities, such as Treasuries, open-end mutual funds and exchange traded funds. BRCM prohibits employees from executing any transaction that would have an adverse economic impact on the Clients. BRCM also maintains a restricted list containing the names of securities which access persons are generally prohibited from trading.

All transactions made by employees of BRCM are closely monitored on an on-going basis by the CCO to ensure pre-clearance has been sought and obtained when required, and to ensure the personal trading patterns of employees fall within the guidelines set forth in the Code. BRCM’s principals and employees may invest directly in one or more of the Funds managed by BRCM.

BRCM, its principals, employees and affiliates may trade securities for their own accounts. However, the records of such trading will not be made available to Clients. It is possible that principals, officers or employees of BRCM may buy or sell securities and other investment interests that BRCM or its affiliates have recommended to Clients and may engage in transactions for their own accounts in a manner that is inconsistent with BRCM’s or its affiliate’s recommendations to a Client or the market in general. Personal trading transactions by employees may raise potential conflicts of interest when such persons trade in a security or other investment product or instrument that is owned by, or considered for purchase or sale, a Client. BRCM has adopted policies and procedures designed to detect and prevent such conflicts of interest and, when they do arise, to ensure that it effects transactions for Clients in a manner that is consistent with its fiduciary duty to its Clients and in compliance with applicable laws. As required by the Code, employees of BRCM are required to report all personal trading transactions to the CCO.

BRCM does not generally act as a principal, either as buying securities for itself or its affiliates from a Client or selling securities it or its affiliates own to a Client. In the event that BRCM decides to engage in any such principal transaction in the future, BRCM will comply with the requirements of Section 206(3) of the Advisers Act by: (i) disclosing to the Client in writing the material terms of the transaction; and (ii) obtaining the written consent of the Client for such transaction (which, in the case of a Fund, may be provided by an independent investor representative). BRCM will include the following in such disclosure: (a) its capacity as principal; (b) the cost to BRCM of the security, in the case of a sale to a Client, or the price of the security in a resale, in the case of a purchase from a Client; and (c) the best price at which the transaction could be effected by or for the Client elsewhere if such price is more advantageous to the Client than the purchase or sale with BRCM.

BRCM generally does not engage in cross trades. In the event that it is determined that effecting a cross trade is appropriate, prior approval by the CCO is required. In the event that an inadvertent cross trade occurs, the CCO will determine to what extent material harm, if any, was caused to the applicable Client accounts or the market and then proceed accordingly, which may include consulting with BRCM's outside counsel.

A Client may co-invest with BRCM and/or principals of BRCM and other Clients in respect of certain investment opportunities. Any such co-investments will be on the same terms as made available to the Client, and no additional fees will be incurred by virtue of such investments. On occasions, Clients may acquire debt or equity interests in projects financed by other entities managed by affiliates of BRCM. Clients may also loan to or invest in entities in which other Clients of BRCM are investors or lenders, either in similar investment positions or in different positions in the capital structure with different risk and return parameters. In any such event, disputes may arise between the two entities regarding the terms of the investments and the enforcement of the entities' respective rights therein. Furthermore, BRCM is not precluded from causing the Client to invest in the securities issued by companies represented in the investment portfolios of other partnerships managed by BRCM or its principals, affiliates, or other Clients. Any such purchases or sales will not be on a "principal-to-principal" basis and will only be offered where BRCM is satisfied that the Client's interests are not unfairly prejudiced.

BRS is a registered broker-dealer and a member in good standing with FINRA. Bryant R. Riley also serves as an executive officer of BRS and as a Chief Executive Officer of BRCM. BRS may recommend to Clients that they buy or sell securities in which it or its related persons have some financial interest, including but not limited to interest in a Fund, and BRS or its related persons may own, buy or sell for themselves the same securities that they may have recommended to Clients. Some conflicts of interests are described below:

- BRCM or its related persons may invest their own capital in securities in which the Clients may also have made investments. For example, BRS may make a market for securities as a broker-dealer, and BRCM may trade or invest in the same securities held by a Client account.
- BRCM may make an investment decision that is contrary to research that its affiliate, BRS, publishes.
- Employees of BRCM and BRS may transact in securities that BRCM has recommended to, or transacted on behalf of a Client account.
- Registered representatives of BRS may recommend that a brokerage client invest in a Fund. The employee's compensation may be based, in part, on revenues earned by the Fund in connection with the management fees paid to BRCM in connection with such investment. BRS will recommend an investment in a Fund only if it is assured that it is suitable for such brokerage client.

All of the foregoing is also subject to the BRS's Code of Ethics as well as applicable laws.

## Item 12. Brokerage Practices

### A. Brokerage Practices

In selecting a broker or dealer for any transaction or series of transactions, BRCM's policy is to seek the best execution of orders at the most favorable price in light of the quality of brokerage and research services provided. In selecting a broker or dealer, BRCM does not necessarily solicit competitive bids and is under no obligation or duty to obtain the lowest commission or best net price for the Client in any transaction.

**Brokerage Practices.** Bryant R. Riley is an executive officer and a registered representative of BRS, BRCM's affiliated FINRA-registered broker dealer. From time to time, BRS may execute principal trades for Clients, in addition to effecting agency or agency cross transactions (*i.e.*, transactions in which BRS acts as broker for the parties on both sides of the transaction) for the account of the Client. A Client may designate BRS as introducing broker for all account trading. In those cases where the Client does not designate a specified broker for trading, BRCM allocates Client transactions to broker-dealers, including BRS, for execution on such markets, at such prices, and at such commissions as BRCM in good faith determines are most advantageous to the Client.

In choosing brokers and dealers, BRCM will not be required to consider any particular criteria. Generally, BRCM will seek to obtain the best combination of brokerage expenses and execution quality for transactions but, as discussed below, BRCM is not required to select the broker or dealer that charges the lowest transaction cost, even if that broker provides execution quality comparable to other brokers or dealers. In evaluating execution quality, historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions will usually be a principal factor, but other factors will also be relevant, including the execution, clearance, and settlement and error correction capabilities of the broker or dealer generally and in connection with securities of the type and in the amounts to be bought or sold; the broker's or dealer's willingness to commit capital; its reliability and financial stability; the size of the transaction; the availability of securities to borrow for short sales; avoiding adverse market impact while building a position; the firm's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; confidentiality; and the market for the security. In particular, when trading in stocks with a small float, the most basic brokers and electronic trading would not provide the necessary level of execution. BRCM has no obligation to deal with any broker or dealer in executing transactions. BRCM discloses this policy to its Clients in advance, including the fact that BRCM may use the services of its affiliate, BRS, to affect a majority of transactions (which would result in BRS receiving commissions from the Clients) and that BRS may be engaged to be a Client's introducing broker.

**Agency Cross Trades.** With appropriate Client authorization as required by applicable law, BRS may act as a broker in securities transactions involving Clients on one side and BRS's brokerage clients on the other side (an "**Agency Cross Transaction**"). In this regard, BRCM will ensure that the Client receives the benefit of the transaction and comply with BRCM's legal and fiduciary responsibilities. BRS may receive compensation from parties on both sides of such transactions (the amount of which may vary) and, therefore, will have a potentially conflicting division of loyalties and responsibilities. Generally, the pricing of the Agency Cross Transaction is negotiated between the Client on one side and the brokerage client on the other side and is usually determined by the inside bid or offer.

**Capital Introduction.** A Fund's executing and prime brokers, and other affiliates, including BRS, may from time to time, refer potential clients to BRCM and/or the Fund or arrange for meetings with potential clients for BRCM and/or investors for the Fund, who are also often clients of BRS and/or another brokerage firm selected by BRCM. Although this may create a potential conflict of interest, capital introduction is not a consideration when selecting or retaining prime brokers or executing trades. While the meetings may be arranged by brokers of BRS, there is no guarantee that the brokerage clients will invest in a Fund or otherwise with BRCM. Standard commission rates will be paid to broker-dealers (including BRS) for trading by BRCM's Clients, as well as customary prime brokerage fees, if any. In addition, BRS's registered representatives may receive finders/referral fees based on any clients they introduce to BRCM that actually invest in a Fund and/or BRCM's other Clients, provided however, these finder/referral fees will be the responsibility of the Fund's general partner and will be paid, if at all, by the Fund's

general partner out of the management fees and performance-based compensation earned by the general partner, if any, in the ordinary course of managing the Fund. Such fees will not under any circumstances be derived from the Fund's capital and will not have any direct adverse impact on the Fund's investors. Payment of the finder/referral fees, if any, will at all times be subject to and in accordance with the applicable rules, regulations and laws regarding payments of this nature.

**Soft Dollars.** In addition to execution quality, BRCM may consider the value of various research services or products, beyond execution, that a broker-dealer provides to BRCM or its Clients. Selecting a broker-dealer in recognition of such other services or products is known as paying for those services or products with "soft dollars." Because many of those services could benefit BRCM, it may have a conflict of interest in allocating Client brokerage business. In other words, BRCM could have an incentive to execute Client transactions through a broker or dealer that provides valuable services or products and pay transaction commissions charged by that broker or dealer which may be higher than BRCM might otherwise be able to negotiate. BRCM could also have an incentive to cause Clients to engage in more securities transactions than would otherwise be optimal in order to generate soft dollars with which to acquire research products and services.

BRCM will make decisions involving "soft dollars" in a manner that satisfies the requirements of the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended. That is, BRCM will generally determine, considering all appropriate factors (including those described here), that commissions paid are reasonable in relation to the value of all the brokerage and research products and services provided by the broker-dealer. In making that determination, BRCM may consider not only the particular transaction, and not only the value of brokerage and research services and products to a particular Client, but also the value of those services in BRCM's performance of its overall responsibilities to all of its Clients. In some cases, the commissions charged by a particular broker for a particular transaction or set of transactions may be greater than the amounts another broker who did not provide research services or products might charge. Additionally, in some cases, a Client's transaction may be executed by a broker in recognition of services or products that are not used in managing that Client's account. Broker-dealers are not excluded from a Client's business simply because they have not provided research services or products, although BRCM may not be willing to pay the same commission to such broker as BRCM might have been willing to pay had the broker provided research products and services. Currently, BRCM does not receive any other soft dollar benefits for its Clients, except with the exception of research received from BRCM's affiliate broker dealer, BRS.

For these purposes, "research" means advice, analysis and reports used to provide lawful and appropriate assistance to BRCM in making investment decisions for its Clients. BRCM may acquire the following types of research: reports on or other information about particular companies or industries; economic data such as unemployment reports, inflation rates or gross domestic product figures; recommendations as to specific securities; financial publications relating to the value, availability or advisability of investing in securities, and issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of the accounts; and portfolio evaluation services and financial database software and services. In addition, the types of brokerage services that BRCM may obtain include execution clearing and settlement service, exchange of messages among brokers, custodians and institutions; and communication services related to the execution, clearing and settlement of securities transactions and other incidental services. Where a particular service or product that a broker or dealer is willing to provide for soft dollars has not only a "research" application, but is also useful to BRCM for non-"research" purposes, BRCM will allocate the cost of the product or service between its research and non-research uses and pay only the "research" portion with soft dollars. BRCM's interest in making such an allocation may differ from Clients' interests in that BRCM has an incentive to designate as great a portion of the cost as "research" as possible in order to permit payment with soft dollars.

When a broker-dealer provides research or other products or services in expectation of brokerage business, it generally suggests the level of business it would like to receive as compensation. Actual transactional business received by a particular broker or dealer during any period may be less than the suggested level, but may and typically will exceed that level. In other cases, a broker or dealer may establish "credits" based on brokerage

commissions paid in the past, which may be used to pay, or reimburse BRCM, for specified expenses. In making its brokerage selections, BRCM may consider those suggestions as part of its evaluation of the factors described above.

**Brokerage for Client Referrals.** BRCM, in its capacity as an investment adviser and affiliate of BRS, a registered broker-dealer, and its related persons as registered representatives of BRS, and its affiliates, may receive Client referrals from BRS in selecting or recommending broker-dealers or third parties. BRCM might have an incentive to select a broker-dealer based on its interests in receiving Client referrals rather than its Clients' interest in receiving the most favorable execution. BRCM will not allocate Client brokerage business to a referring broker unless BRCM determines in good faith that the commissions and transaction costs payable to such broker are not materially higher than those available from other non-referring brokers offering services of similar execution quality.

**Directed Brokerage.** Certain Clients may direct that some or all account transactions be effected through specific brokers or dealers. In such case, the Client is responsible for negotiating the terms and conditions (including, but not limited to, commission rates) relating to all services to be provided by such brokers. BRCM will assume no responsibility for obtaining the best prices or any particular commission rates for transactions with or through any such broker for such Client's account. A Client must recognize that it may not obtain rates as low as it might otherwise obtain if BRCM had discretion to select brokers or dealers other than those chosen by the Client. Any Client providing instructions to BRCM regarding direction of brokerage transactions must notify BRCM in writing if the Client desires BRCM to cease executing transactions with or through any such broker or dealer.

BRCM routinely recommends, but does not require, that a Client direct BRCM to execute transactions through a specified broker-dealer, usually BRCM's affiliate, BRS.

**IPO Allocations.** According to its policies and procedures, BRCM generally allocates IPOs and new issue and other public offerings, on the basis of pre-established criteria across those eligible accounts seeking to purchase the securities and for which the securities are appropriate. IPOs and new issues will be restricted to certain Clients who are eligible to participate in new issue profits. Accounts which are not prohibited from participating in the profits and losses associated with the purchase or sale of IPOs or new issues may participate in such transactions. IPOs and new issues will generally be allocated on a *pro rata* basis to all eligible Clients, as applicable, based on the asset size of each account, its risk tolerance, suitability of investment and other factors. As a result, certain Clients may have greater opportunities than other to invest in IPOs and new issues.

## **B. Trade Aggregation**

Under BRCM's trade aggregation policy, orders for the same investment, including acquisition and disposition transactions, entered on behalf of more than one (1) Client may be aggregated (*i.e.*, blocked or bunched), subject to the aggregation being in the best interests of all participating Clients. The aggregated trade order must indicate the amount or percentage of the trade intended to be allocated to each participating Client. If the final allocation differs from the initially indicated allocation or is not allocated on a *pro rata* basis for partially filled orders, except in the case of *de minimis* changes in the allocations, a written rationale must be provided in the allocation statement. Please also refer to response to "A" above.

## Item 13. Review of Accounts

**Account Reviews.** Client accounts are generally reviewed on a periodic basis by BRCM's investment staff, as well as Bryant R. Riley, the Chief Executive Officer, and Michael Markunas, the Chief Compliance Officer. A review of a Client's account focuses on the review of performance (including market and portfolio-level correlation, volatility, and overall portfolio suitability) of the account's portfolio investments.

**Client Reports.** Following the end of each quarter in each fiscal year, BRCM and/or the qualified custodian of each Client's account will transmit to each Fund investor unaudited financial information including a statement of net capital appreciation or net capital depreciation.

Each Fund's independent certified accountants will audit the Fund's books and records as of the end of each fiscal year. Each Fund will distribute to its investors an annual report prepared by its independent certified public accountants setting forth a balance sheet of the Fund, a profit and loss statement showing the results of operations of the Fund and its net capital appreciation or net capital depreciation, a statement of such investor's capital account and the manner of its calculation and the Fund percentage as of the end of the prior fiscal year. After the end of each fiscal year, each investor in a Fund will be furnished the required tax information for preparation of their respective tax returns.

## Item 14. Client Referrals and Other Compensation

**Compensation by Non-Clients.** Non-Clients do not provide compensation or other economic benefits to BRCM for providing investment advice or other advisory services to BRCM's Clients.

**Compensation for Client Referrals.** Subject to applicable law, BRCM may employ solicitors to whom it will pay either a portion of the advisory fees received from Clients referred by such solicitors or cash at BRCM's own expense. In such cases, this arrangement will be disclosed in writing to the Client and BRCM will comply with any other applicable requirements under Rule 206(4)-3 under the Advisers Act. In particular, BRCM will ensure that each solicitor provides Clients with a current copy of BRCM's Form ADV brochure and the solicitor's written disclosure document.

## Item 15. Custody

BRCM does not act as a custodian for Client assets. However, under Rule 206(4)-2 under the Advisers Act, BRCM may be deemed to have custody of Client assets.

### **Private Investment Funds**

BRCM is deemed to have custody of a Fund's assets because of the authority it or a related party has over the Fund. It is BRCM's policy generally to cause the Fund with assets over which BRCM is deemed to have custody to be audited annually and to distribute audited financial statements, prepared in accordance with GAAP, to investors after the end of each fiscal year. In addition, upon the final liquidation of any Fund, BRCM will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Fund to all investors promptly after completion of the audit.

### **Asset Transfer Authorization Arrangements**

In the event a Client and its custodian enter into standing letters of authorization granting BRCM third party money movement authority on its Clients' accounts at such custodian, BRCM would be deemed to have custody of such Client assets and will ensure it is in compliance with the conditions set out in the SEC's "no-action" letter dated February 21, 2017 so as to be eligible for the relief outlined therein.

## Item 16. Investment Discretion

BRCM has discretionary authority to make the following determinations without obtaining the consent of any Fund, Investment Company, or Account Client before the transactions are effected:

- the securities that are to be bought or sold;
- the total amount of the securities to be bought or sold;
- the brokers through which securities are to be bought or sold; and
- the commission rates at which securities transactions for Client accounts are effected.

BRCM's discretionary authority is derived from an express grant of authority under the governing documents and/or an investment advisory agreement that BRCM enters into with each Client. BRCM will only buy and sell securities and other instruments for Clients on a discretionary basis in a manner consistent with each Client's stated investment objectives and restrictions. See "*Item 12. Brokerage Practices*" above. BRCM's internal compliance policies may impose additional restrictions on the instruments and securities that may be bought and sold on behalf of Clients.

## Item 17. Voting Client Securities

Generally, BRCM will vote (by proxy or otherwise) in all matters for which a vote is solicited by, or with respect to, issuers of securities beneficially held by a Fund in accordance with BRCM's proxy voting policies and procedures (the "**Policies**").

The Policies require BRCM to vote proxies received in a manner consistent with the best interests of its Clients. The Policies also require BRCM to vote proxies in a prudent and diligent manner intended to enhance the economic value of the assets of the Client that beneficially owns the voting securities. However, the Policies permit BRCM to abstain from voting proxies in the event that the Client's economic interest in the matter being voted upon is limited relative to its overall portfolio or the impact of the vote will not have an effect on the outcome of the matter up for vote or on the Client's economic interests.

Certain of BRCM's proxy voting guidelines are summarized below:

- BRCM generally votes for: uncontested director nominees recommended by management; the election of auditors recommended by management, unless a dispute exists over policies; limiting directors' liability; and eliminating preemptive rights.
- BRCM votes against: proposals that make it more difficult to replace board members, including proposals to: stagger the board; overweight management on the board; introduce unequal voting rights; proposals to entrench the board or adopt anti-takeover measures; proposals to provide cumulative voting rights; and social issues.

Although many proxy proposals can be voted in accordance with BRCM's proxy voting guidelines listed above, some proposals will require special consideration, and BRCM will make a decision on a case-by-case basis in these situations, including proposals to: eliminate director mandatory retirement policies; rotate annual meeting locations and dates; grant options and stock to management and directors; and indemnify directors and/or officers.

The Policies include guidelines to follow when BRCM receives proxies and for the CCO to follow if a material conflict of interest arises between BRCM or its employees and its Clients to ensure that such conflict is resolved in the best interests of the Clients.

BRCM's proxy voting policy and procedures, as well as its proxy voting record, are available for Clients to review. Clients may review and discuss these documents upon request by contacting BRCM via phone at 310-689-2220 or via email to [mmarkunas@brileyfbr.com](mailto:mmarkunas@brileyfbr.com).

## Item 18. Financial Information

BRCM has no financial conditions that are reasonably likely to impair its ability to meet contractual commitments to the Clients and BRCM has not been the subject of a bankruptcy petition at any time during the past ten (10) years.