

# HoldCo Asset Management, LP

Part 2A of Form ADV

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March 2021

This brochure provides information about the qualifications and business practices of HoldCo Asset Management, L.P. (“HoldCo”). If you have any questions about the contents of this brochure, please contact James McKee, HoldCo’s Chief Compliance Officer, at [james@holdcoam.com](mailto:james@holdcoam.com) or Vik Ghei and Misha Zaitzeff at [vik@holdcoam.com](mailto:vik@holdcoam.com) and [misha@holdcoam.com](mailto:misha@holdcoam.com), respectively. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about HoldCo is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

HoldCo is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

## **Item 2 – Material Changes**

Since its last annual updating amendment on March 30, 2020, Holdco updated the number of its employees and its regulatory assets under management. In addition, HoldCo updated several risk factors and added risk factors addressing “Investments in Closed-End Funds”, “Initial Public Offerings”, “Special Purpose Acquisition Companies (SPACs)”, “Private Investment in Public Equities (PIPEs)”, “Fintech Debt and Equity”, “General Economic and Capital Market Conditions”, “Economic and Market Conditions in the U.S.”, “Coronavirus Outbreak & Similar Pandemics”, “Political and Social Unrest”, “Withdrawal of the United Kingdom from the EU”, “Non-U.S. Investments”, “Investing in Emerging Markets” and “Risks Relating to Remote Working and Moving Headquarters”.

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#### Item 4 – Advisory Business

**A. The Investment Adviser.** HoldCo is the investment manager for a total of six pooled investment vehicles (each a “Fund” or a “Client” and collectively the “Funds” or the “Clients”).

Vikaran (Vik) Ghei and Michael (Misha) Zaitzeff are the members of the respective general partners of HoldCo and the Funds. Currently, HoldCo has six employees, five of whom perform investment advisory functions and none of whom are registered representatives of a broker-dealer. Mr. Ghei and Mr. Zaitzeff are not, and have never been, HoldCo employees.

HoldCo is a Delaware limited partnership and an investment adviser located in New York, New York. HoldCo was founded in December 2013 and serves as the sole investment manager to six (6) pooled investment vehicles. The Funds are as follows with the general partner for each in parentheses: HoldCo Opportunities Fund, L.P. (VM GP I LLC), HoldCo Opportunities Fund II, L.P. (VM GP IV LLC), HH HoldCo Co-Investment Fund, L.P. (VM GP V LLC), HoldCo Co-Investment Fund II, L.P. (VM GP VI LLC), HoldCo Opportunities Fund III, L.P. (VM GP VII LLC), and HH HoldCo Co-Investment Fund II, L.P. (VM GP VIII LLC).

HoldCo Opportunities Fund, L.P., HoldCo Opportunities Fund II, L.P., and HoldCo Opportunities Fund III, L.P. are managed on a fully discretionary basis. HH HoldCo Co-Investment Fund, L.P., HH HoldCo Co-Investment Fund II, L.P., and HoldCo Co-Investment Fund II, L.P. are not managed on a fully discretionary basis (*i.e.* new investments require the consent of limited partners, but post-investment oversight and sale decisions do not). Each of HoldCo Opportunities Fund, L.P., HoldCo Opportunities Fund II, L.P., HH HoldCo Co-Investment Fund, L.P., HoldCo Co-Investment Fund II, L.P., and HH HoldCo Co-Investment Fund II, L.P. is closed to additional investors.

As outlined on Schedule A of Form ADV, HoldCo is owned by VM GP II LLC, which serves as its general partner, and by its limited partner, VM Limited Partner I LP. Mr. Ghei and Mr. Zaitzeff are the principal owners of VM GP II LLC and VM Limited Partner I LP.

**B. Types of Advisory Services.** HoldCo’s advisory services are limited to acting as investment manager to the Funds, which are pooled investment vehicles. The investment objective of the Funds is to generate positive absolute returns, while minimizing the risk of loss of invested capital. The Funds will seek to achieve this investment objective through opportunistic investments across a broad investment mandate. HoldCo will generally employ a fundamental, value-driven investment approach in selecting investments on behalf of the Funds. The Funds will focus on various investment strategies, including distressed, event-driven, and special situations strategies. These strategies are discussed in greater detail in each Fund’s offering documents. A Fund may pursue other investment strategies if they fall within the investment mandate for the Fund. HoldCo believes that it is favorable to retain flexibility in allocating capital so as to take advantage of attractive investment opportunities as they arise.

**C. Tailored Advice and Investment Restrictions.** HoldCo generally utilizes similar strategies for each of the Funds but maintains discretion to tailor its advisory services to the specific needs of a Fund when deemed necessary. HoldCo’s advisory services to the Funds are outlined in various governing documents such as limited partnership agreements, private placement memoranda, investment management agreements and other applicable offering documents. These documents outline appropriate investment criteria and investment restrictions and limitations.

**D. Wrap Fee Programs.** HoldCo does not participate in wrap fee programs.

**E. Client Assets Under Management.** As of December 31, 2020, HoldCo's total "regulatory assets under management" were \$917,794,000. Of this amount, HoldCo managed \$713,996,000 on a discretionary basis and \$203,798,000 on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

**A.** HoldCo receives management fees based on a percentage of committed capital (the "Management Fee") from HoldCo Opportunities Fund II, L.P. and HoldCo Opportunities Fund III, L.P. during their investment periods and, after the expiration of the investment periods, based on deployed capital plus a portion of remaining capital reserved for follow on investments. None of the other Funds pay management fees. Incentive allocations ("Performance Compensation") are charged to the Funds based on investment performance achieved for each Fund (subject to hurdle rates and with "catch-up" provisions).

The fees and expenses applicable to each Fund are set forth in detail in the respective Fund's offering documents, limited partnership agreements, investment management agreements and other operative documents. However, all fees are subject to negotiation. Additionally, HoldCo has entered, and may in the future enter, into agreements, such as side letters, with underlying investors in the Funds that provide for terms, including Management Fees or Performance Compensation, that are more favorable than the terms provided to other underlying investors in the Funds.

**B.** HoldCo Opportunities Fund II, L.P. and HoldCo Opportunities Fund III, L.P., each pay their Management Fee to HoldCo quarterly from their assets. Performance Compensation, when earned, is deducted from a Fund's distribution proceeds when such Fund makes carried interest distributions to its limited partners, provided that certain other conditions have been met.

**C.** In addition to the fees and allocations described above, the Funds may also incur, and bear the cost of, (i) investment-related expenses, including, but not limited to, brokerage commissions, clearing and settlement charges, custodial fees, interest expense, consulting and professional fees relating to particular investments or contemplated investments, investment-related travel and lodging expenses and research-related expenses; (ii) operational expenses, including, but not limited to, legal expenses, accounting; audit and tax preparation expenses, insurance premiums; fees for each Fund's Administrator; and other similar expenses; and (iii) organizational expenses, including, but not limited to, expenses relating to the offer and sale of interests in the Funds, including associated legal expenses.

In certain circumstances, expenses are allocated, from time to time, among the Funds on a basis that HoldCo considers equitable based on the relevant facts and circumstances and in accordance with its current expense allocation policy.

HH HoldCo Co-Investment Fund, L.P., HoldCo Co-Investment Fund II, L.P., HH HoldCo Co-Investment Fund II, L.P., and any future co-invest vehicles, will not bear investment expenses related to any unconsummated investment (sometimes referred to as "broken deal expenses"), to the extent that such investment was also to be allocated to any other Fund advised by HoldCo had such investment been consummated, as further disclosed in the related governing documents for each Fund.

Item 12 further describes the factors that HoldCo considers in selecting or recommending broker-dealers for Client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

**D.** HoldCo Opportunities Fund II, L.P. and HoldCo Opportunities Fund III, L.P., each pay HoldCo a Management Fee quarterly in advance. If either of these Funds terminates prior to the end of a quarter for which a Management Fee have been pre-paid, any excess fees will be returned to that Fund.

**E.** Neither HoldCo nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

HoldCo has entered into agreements with each of the Funds with respect to the payment of Performance Compensation. The manner in which Performance Compensation is paid is set forth in each Fund’s respective offering and governing documents, such as limited partnership agreements. Performance Compensation is paid only once a Fund realizes gains and is not paid based on unrealized capital gains or losses.

The existence of the Performance Compensation arrangements may create an incentive for HoldCo to seek more speculative investments on behalf of the Funds than would otherwise be the case in the absence of such performance-based compensation. In addition, due to the method of calculating the Performance Compensation, the amounts paid to the general partner may be affected by the timing of dispositions and other factors which are within the control of HoldCo.

In the allocation of investment opportunities, performance-based compensation arrangements may create an incentive to favor Funds which pay greater performance-based compensation over Funds which pay less. HoldCo maintains an allocation policy that dictates how investments are allocated among the Funds, which was negotiated with the investors of each Fund and is set forth in the applicable documents governing the Funds. HoldCo endeavors to allocate investments among the Funds in a fair and equitable manner and in accordance with its allocation policy.

As discussed in Item 5.A, HoldCo has entered, and may in the future enter, into side letter agreements with certain underlying investors of the Funds that may provide for terms, including with respect to Performance Compensation, that are more favorable than the terms provided to other underlying investors in the Funds.

#### **Item 7 – Types of Clients**

HoldCo provides investment advice to private funds, each of which is a privately-offered pooled investment vehicle. The interests in the Funds managed by HoldCo were offered in private placements, and in reliance on Section 3(c)(7) of the Investment Company Act of 1940, as amended (the “Company Act”), to persons who are “qualified purchasers” as defined under the Company Act, and who are subject to certain other conditions, which are set forth in the offering documents for the Funds. Typically, HoldCo generally requires minimum investment amounts for limited partners of the Funds which amounts are outlined in the offering documents of each respective Fund. Minimum investments are negotiable at HoldCo’s discretion.

HoldCo does not provide investment advice to separately managed accounts, individuals, trust, investment companies, or pension plans.

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

**A.** Each Fund’s general investment objective is to generate positive absolute returns while minimizing the risk of loss of invested capital. HoldCo will seek to achieve this investment objective through opportunistic investments across an extremely broad investment mandate described below. HoldCo will generally employ a fundamental, value-driven investment approach in selecting investments on behalf of the Funds. HoldCo’s investment mandate is broad, however, and HoldCo may invest anywhere in an entity’s capital structure, including in debt or equity, and in both foreign and domestic assets. HoldCo believes that it is favorable to retain this flexibility to take advantage of attractive investment opportunities

as they arise. However, investing in securities or real assets involves risk of loss that investors in the Funds should be prepared to bear.

In analyzing investments, HoldCo generally utilizes a fundamental, “bottoms-up” investment process. To determine whether a specific investment meets a Fund’s investment criteria, HoldCo will typically evaluate sources of value, the relationship of price to book value, and future cash flows, among other things. HoldCo will also typically examine the capital structure of an issuer with the goal of identifying the security or instrument that presents the most favorable risk/reward profile. HoldCo also seeks to understand possible future outcomes as well as possible events that could have a significant impact on an investment’s overall returns, including what legal rights and remedies are afforded to the holders of various securities. HoldCo will also seek to understand the risk and sources of upside potential in each given investment and ensure that the position’s size is appropriate in light of the size and composition of committed capital and the overall portfolio.

It is anticipated that the Funds will be exposed to a variety of asset classes and geographies. HoldCo has no formulaic criteria as to asset type, asset size, liquidity, geography, earnings, or industry that would by itself disqualify an investment. Moreover, the holding period for the Funds’ investments may vary greatly with multi-year holding periods at the long end down to periods that are less than a year. Certain Funds provide for an investment limit in a single issuer. These limits are based on aggregate capital commitment of the limited partners.

Specifically, HoldCo invests in new money or secondary market investments in or related to any geographic location (both foreign and domestic) which may take the form of, without limitation, loans, debt, hybrid securities (including trust preferred securities), equity, direct interests, or other interests in:

- Financial institutions, including without limitation banks, insurance companies, and real estate investment trusts (“REITs”), and any asset held by such financial institutions;
- Structured financial products, including without limitation collateralized debt obligations and asset-backed securities, and any asset held by entities related to such structured financial products; and
- Stressed, distressed, and special situation investments across all issuer and asset types including, without limitation, investments that may involve any of the following characteristics: bankruptcy, insolvency, or liquidation; stressed and distressed issuers; extraordinary corporate events; complex operating businesses, capital structures and securities; transitions in credit quality; legal and regulatory changes or challenges; limited research coverage; and non-investment grade or non-rated securities.

From time to time, the Funds take a directional short position in credit or equity, including through the use of derivatives, either to serve as a hedge against an existing long position or in connection with a directional investment thesis.

***Regardless of the strategy employed, investing in securities involves a risk of loss, including the loss of capital. Each Fund and each investor and potential investor in the Funds should be prepared to bear such risk. The offering documents for each Fund set forth the Risk Factors applicable to the Fund. The following summary of Certain Investment Risk Factors is qualified in its entirety by reference to the applicable offering documents for each Fund and the descriptions of the Risk Factors contained therein.***

## **B. Certain Investment Risk Factors of the Funds**

**Investment Complexity.** As an element of HoldCo’s investment style, the Funds pursue unusually complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. HoldCo’s, and consequently the Funds’, tolerance

for complexity presents risk, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could harm the Funds' performance.

**Illiquidity of Investments.** The Funds invest a significant amount of their capital in securities, loans or other assets for which no, or only a limited, market exists or that are subject to legal or other restrictions on transfer. Moreover, HoldCo anticipates that certain investments may be sourced not from traditional broker-dealer desks but instead directly through private transactions and such investments may not have an active market. The market prices, if any, for such assets tend to be volatile, and may fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic or international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors on the Funds' assets. Accordingly, the Funds may not be able to sell assets when a Fund desires to do so or to realize what HoldCo perceives to be the fair value of its assets in the event of a sale. The sale of illiquid assets and restricted securities often require considerable time and the incurrence of significant selling expense. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. In addition, in times of extreme market disruption, there may be no market at all for one or more of the asset classes held by the Funds, potentially resulting in the inability of the Funds to dispose of their assets for an indefinite period of time.

**Investments May Be Junior.** In certain cases, the companies in which a Fund invests may have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to the Fund's investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of the Fund's investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to the Fund's investment would typically be entitled to receive payment in full before distributions could be made in respect of the Fund's investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of the investment. If any assets remain, holders of claims that rank equally with the investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of the Fund to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

**Uncertain Exit Strategies.** Due to the illiquid nature of certain of the Funds' current positions (and positions which may be acquired in the future) as well as the uncertainties of the reorganization and active management process, HoldCo is unable to predict with confidence what the exit strategy will ultimately be for any given position, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

**Availability of Investments and Execution Risks.** There are risks and uncertainties with respect to the availability and selection of investments. Investors in the Funds will be relying on the ability of HoldCo to identify, structure, consummate, leverage, manage and realize returns on attractive investments. The business of identifying and structuring investments is highly competitive and involves a high degree of uncertainty. No assurance can be given that the Funds will be successful in obtaining suitable investments. Even if an attractive investment opportunity is identified, there is no certainty that a Fund will be permitted to invest in such opportunity (or invest in such opportunity to the fullest extent desired). Accordingly, there can be no assurance that the Funds will be able to identify and complete attractive investments. Even if such investments are identified, there can be no assurance that they will not decline in value considerably while held by the relevant Fund, including, without limitation, as a result of a drop in



LIBOR or other interest rates (including to levels below 0%), extended weakness in the credit or other markets, or other circumstances. In addition, competition for investment opportunities may have the effect of increasing costs, thereby reducing investment returns to the Funds. In addition, there may be significant execution risk in the Funds' investment programs. Some of these execution risks include, but are not limited to, investments that are dependent on a corporate restructuring occurring (for example a bankruptcy plan, a voluntary exchange of securities, a demutualization, or other restructuring), the ability to convince holders of securities or other interests to sell, and obtaining consent from the board, management, or stakeholders of a company to transact. The Funds may invest in complex, heavily negotiated transactions, and there is additional risk that such investments will take a substantial amount of time to execute, and have terms associated with them that may ultimately prove to be unfavorable to the Funds.

**Competition for Investments.** The Funds compete for, among other things, investment opportunities. The competition for investment opportunities is based primarily on the pricing, terms and structure of a proposed investment and certainty of execution. A number of factors serve to increase competitive risks:

- A number of competitors in some of the areas in which the Funds may invest or try to invest may have greater financial, technical, marketing and other resources and more personnel, and, in the case of some asset classes or geographic regions, longer operating histories, more established relationships, greater expertise or better reputation;
- Some of these competitors may also have a lower cost of capital and access to funding sources that are not available to the Funds, which may create competitive disadvantages with respect to investment opportunities;
- Some competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively for investments;
- Some competitors may be subject to less regulation or less regulatory scrutiny and accordingly may have more flexibility to undertake and execute certain businesses or investments than the Funds do and/or bear less expense to comply with such regulations than the Funds; and
- There are relatively few barriers to entry impeding the formation of new funds, including a relatively low cost of entering these businesses, and the successful efforts of new entrants into the Funds' various lines of business, including major commercial and investment banks and other financial institutions, have resulted in increased competition.

The Funds may lose investment opportunities if they do not match investment prices, structures and terms offered by competitors. Alternatively, the Funds may experience decreased investment returns and increased risks of loss if it matches investment prices, structures and terms offered by competitors. This competitive pressure could adversely affect the Funds' ability to make successful investments, which would adversely impact the Funds.

**Small and Mid-Cap Company Investments.** The Funds invest in small- and mid-capitalization companies, which may expose the Funds to greater investment risks. Investments in these companies may present greater opportunities for returns but also involve greater risks than are customarily associated with investments in more established and larger capitalized companies. The securities of less seasoned and smaller capitalized companies may have no trading market. If one exists, the securities are often traded in the over-the-counter market and have fewer market makers and wider price spreads, which may in turn result in making the Funds' investments more vulnerable to adverse general market or economic developments than would investments in larger, more established companies.

**Concentration of Investments.** Although the Funds are subject to certain limitations on their investments, which are set forth in their respective offering documents, a Fund's assets may become concentrated in particular asset classes, strategies, issuers, geographies and markets. Accordingly, the Funds may not enjoy the reduced risks of a broadly diversified portfolio, which could cause the Funds' investments to be more susceptible to particular economic, political, regulatory, technological or industry conditions or occurrences compared with a fund, or a portfolio of funds, that is more diversified or that has a broader industry focus. As a result, the aggregate return of a Fund's portfolio may be volatile and may be affected substantially by the performance of only one or a few holdings. Additionally, HoldCo may not be able, and is not obligated, to reduce or hedge such risks.

**Valuation.** Investments of the Funds which HoldCo believes are fundamentally undervalued or overvalued may not ultimately be valued in the capital markets at prices and/or within the timeframe that HoldCo anticipates. In particular, purchasing securities at prices which HoldCo believes to be distressed or below fair value is no guarantee that the price of such securities will not decline even further. Further, because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, a Fund's valuation of an investment may not necessarily reflect the prices that would actually be obtained by the Fund when such investment is realized. For example, there may be liabilities such as unknown or uncertain tax exposures with respect to investments, especially those outside of the United States, which may not be fully reflected in the Funds' valuations.

**Effect of Tax Laws on Investments.** The Funds may make certain investment decisions that are, at least in part, based on HoldCo's valuation of certain tax assets, such as net operating loss carry-forwards and the preservation of such tax asset through, for example, the exception under 382(l)(5) of the tax code. Tax laws and regulations are complicated, subject to governmental review and change, and it is possible that such tax assets ultimately will not have the value that HoldCo anticipated at the time HoldCo makes such investment decisions.

**Hedging.** While the Funds employ hedging strategies for certain risks, there is no requirement for the Funds to employ hedging strategies and there is a significant possibility they will not employ any hedging strategies. Any lack of hedging may subject the Funds to additional risks (interest rate risk, credit risk, and general market risk, among others) that could have been mitigated by hedging. Even if the Funds do engage in hedging transactions, such transactions may reduce certain risks but do not eliminate potential losses arising from fluctuations in the value of the Funds' portfolio investments or related securities, currencies, interest rates or other assets, and entail other risks. In addition, unanticipated changes in securities or currency prices or other rates may result in a poorer overall performance for a party than if it had not entered into any hedging transactions. In the event of an imperfect correlation between a hedging transaction and the portfolio position it is intended to protect, the desired protection may not be obtained and a party may be exposed to risk of loss. In addition, it is not possible to hedge fully or perfectly against any particular risk. Moreover, hedging transactions may not be available at all or at a reasonable cost to the Funds.

While hedging arrangements may reduce certain risks, hedging itself may entail certain other risks. Hedging may require the posting of cash collateral at a time when a Fund has insufficient cash or illiquid assets such that the posting of the cash is either impossible or requires the sale of assets at prices that do not reflect their underlying value. Moreover, these hedging arrangements may generate significant transaction costs, including potential tax costs, which would reduce the returns generated by an investment.

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

**Call Options.** The seller (writer) of a call option which is covered (i.e., the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The securities necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing securities to cover the exercise of an uncovered call option can cause the price of the securities to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

**Put Options.** The seller (writer) of a put option which is covered (i.e., the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security if the market price falls below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

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

**Index Futures.** The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, participants may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts by the Funds also are subject to HoldCo's ability to correctly predict movements in the direction of the market.

**Futures Contracts.** The value of futures contracts depends upon the price of the securities or other assets, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Funds' positions trade or of its clearing houses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Funds from promptly liquidating unfavorable positions and subject the Funds to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary

circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

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

**Forward Contracts.** The Funds enter into forward contracts and options thereon, including non-deliverable forwards, which are currently not traded through clearinghouses, although this is expected to change. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to less than that which HoldCo would otherwise recommend, to the possible detriment of the Funds. In its forward trading, the Funds will be subject to the risk of the failure of, or the inability or refusal to perform with respect to its forward contracts by, the principals with which the Funds trades. The Funds’ assets on deposit with such principals will also generally not be protected by the same segregation requirements imposed on certain regulated brokers in respect of customer funds on deposit with them. HoldCo may order trades for the Funds in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject the Funds to the risk of loss.

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

the return on a Fund's obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase a Fund's financial risk.

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

**Exotic Options.** Exotic options are typically, but not always, traded over-the-counter ("OTC"). OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. The Funds may incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option. Because exotic options can often be highly customized, there is lower visibility with respect to the pricing and valuation of these instruments. Exotic options may be subject to high levels of price volatility. For example, in the case of barrier options, as the price of the asset underlying the option trades closer to a barrier level, the delta of the option (i.e., the ratio of the change in the price of the underlying asset to the corresponding change in the price of the option) and the gamma of the option (i.e., the rate of change of the delta with respect to the underlying asset's price) may become very high. Exotic options may be subject to higher levels of model risk than commonly traded options because standard models are not able to adequately capture or predict the risks associated with the exotic options. Exotic options may be "path dependent". This means that their terminal value (at exercise or expiration) depends upon the value of the underlying asset, not only at the time of exercise or expiration, but also at prior points in time. In this sense, the option's terminal value depends upon the "path" taken by the underlying asset over the life of the option. For example, a barrier option's value at expiration depends upon both the value of the underlying asset at expiration and whether the past value of the underlying asset ever satisfied a barrier condition. In contrast, a vanilla option (e.g., a call option) is not path dependent. Its value at exercise or expiration depends on the value of the underlying asset only at that point in time. The additional features incorporated by exotic options require additional judgments regarding the likelihood of certain conditions being satisfied, any one of which can result in loss if made incorrectly. An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty; however, the exposure to counterparty risk may differ. OTC options generally involve greater credit and counterparty risk than exchange-traded options.

**Shorting.** Short selling involves selling securities which are not owned and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which a Fund will engage in short sales depends upon HoldCo's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. There can be no assurance that a Fund will be able to maintain the ability to borrow securities sold short. In such cases, the Fund can be "bought in" (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

**Counterparty Risk.** The Funds expect to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Funds to trade in any variety of markets or asset classes over time. However, there can be no assurance that the Funds will be able to establish or

maintain such relationships. An inability to establish or maintain such relationships could limit the Funds' trading activities, create losses, preclude the Funds from engaging in certain transactions or prevent the Funds from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the Fund's business due to its reliance on such counterparties.

The Funds effect transactions in the "over-the-counter" or "OTC" derivatives markets. The stability and liquidity of OTC derivatives transactions depends in large part on the creditworthiness of the parties to the transactions. In the OTC markets, a Fund enters into a contract directly with dealer counterparties which may expose the Fund to the risk that a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. Delays in settlement may also result from disputes over the terms of the contract (whether or not bona fide). In addition, the Fund may have a concentrated risk in a particular counterparty, which may mean that if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if the Fund had entered into contracts with multiple counterparties. Certain OTC derivative contracts require that a Fund post collateral.

If there is a default by a counterparty, the applicable Fund under most normal circumstances will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the Fund being less than if it had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. In such case, the recovery of the Fund's securities from such counterparty or the payment of claims therefor may be significantly delayed and it may recover substantially less than the full value of the securities entrusted to such counterparty. In addition, there are a number of proposed rules that, if they were to go into effect, may impact the laws that apply to insolvency proceeding and may impact whether the Fund may terminate its agreement with an insolvent counterparty.

Collateral that a Fund posts to its counterparties that is not segregated with a third party custodian may not have the benefit of customer-protected "segregation" of such funds. In the event that a counterparty were to become insolvent, the Fund may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return.

In addition, the Funds use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to a Fund's assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on the Fund and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering the Fund's securities from or the payment of claims therefor by such counterparty and a loss to the Fund, which could be material.

**Central Clearing.** In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives are underway to require certain derivatives to be cleared through a clearinghouse. In the United States, clearing requirements were part of the Dodd-Frank Act. The CFTC imposed its first clearing mandate on December 13, 2012 affecting certain interest rate and credit default swaps. It is expected that the CFTC and the SEC will introduce clearing requirements for other derivatives in the future. Trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, the FCM, as well as possible SEC or CFTC mandated margin requirements. The Fund is not in direct privity with the clearinghouse, but instead acts through a member of the clearinghouse, an FCM, which acts as a quasi-agent, guaranteeing the obligations of the

Fund to the clearinghouse. This regime is modeled in large part after the U.S. futures clearing regime. Clearing through FCMs has in certain cases led to losses caused by operational failure or fraud.

As products become more standardized in order to be cleared, standardized derivatives may mean a Fund may not be able to hedge its risks or express an investment view as well as it would using customizable derivatives available in the over-the-counter markets. Compared to the OTC derivatives market, a Fund may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the clearinghouse and the FCM. Virtually all of the margin models that are utilized by the clearinghouses are dynamic, meaning that, unlike many of a Fund's bilateral swap contracts where the amount of initial margin posted on the contract is typically static throughout of the life of the contract, the amount of the initial margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject a Fund to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment which could have a detrimental effect on the Fund. Clearinghouses also limit collateral that they will accept to cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require the Fund to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to the Fund. In addition, clearinghouses may not allow the Fund to portfolio margin (or cross margin) its positions, which may increase the amount of overall margin that the Fund needs to post. While clearinghouse margin models are dynamic and may change daily, they are also different from the margin models applied by OTC derivative dealers. The OTC derivative dealers generally have a model that is supported by a team of individuals that analyze the credit risk of each fund and fund manager by reviewing, among other variables, strategy, performance, key portfolio managers, sophistication of technology and operations, traditional volatility, types of products, and lock-up periods. The model used by the dealers to apply margin is tailored for the risk of each fund and fund manager. In contrast, the clearinghouse margin model is applied across all types of counterparties and there is no analysis of individual counterparty risks. This may mean that the clearinghouse margin model may be less fluid. It may mean that it is also more expensive overall for a Fund than if specific factors of the Fund were considered.

Also, each clearinghouse only covers a limited range of products and a Fund may have to spread its derivative portfolio across multiple clearinghouses, which in turn reduces the benefits of netting that derivatives users rely on to mitigate counterparty risk.

Although standardized clearing for derivatives is intended to reduce risk (for instance, they may reduce the counterparty risk to the dealers to which a Fund would be exposed under OTC derivatives), it does not eliminate risk. Rather, standardized clearing transfers risk of default from the over-the-counter derivatives dealer to the central clearinghouse, which may increase systemic risk, potentially more so than a failure by an OTC derivatives counterparty. The failure of a clearinghouse could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on member firms during a financial crisis, which could lead member firms to default, worsening the crisis. Because these clearinghouses are still developing and the related bankruptcy process is untested, it is difficult to speculate what the actual risks would be to a Fund related to the default of a clearinghouse. While the futures model worked well during the Lehman crisis in 2008, there has been no testing whether the model is scalable so that it would apply to derivatives more generally. In addition, there is no one international standard for clearinghouses; existing clearinghouses have different waterfalls that apply upon the insolvency of a clearinghouse or a clearinghouse member and it is possible that a Fund could be in a worse position if a clearinghouse were to fail than had it executed a trade with a traditional derivative counterparty. Also, a clearinghouse will likely require that a Fund relinquish control of its transactions if the clearinghouse were to become insolvent, and, therefore, a Fund would not be able to terminate and close out of a defaulting clearinghouse's positions, but would become subject to regulators' control over those

positions. In such a circumstance, a Fund may not be able to take actions that it deems appropriate to lessen the impact of such clearinghouse default. Clearinghouses tend to trade in particular products in order to achieve economy of scale. This heightens the concentration risk for a Fund, which might not be easily hedged. In that case, a Fund may only be able to protect itself from clearinghouse risk by exiting the market entirely, potentially foregoing an entire segment of beneficial transactions.

Applicable regulations may also require a Fund to make public information regarding its swaps volume, position size and/or trades, which could detrimentally impact a Fund's ability to achieve its investment objectives.

**Non-Controlling Interests in Companies.** The Funds frequently hold non-controlling interests in companies in which they invest. The success of the Funds' investments in such companies will depend in part on the consent of existing management and directors, and other shareholders (especially controlling shareholders). Because the Funds will not control such companies, the ability to exit from such investments may be limited. Additionally, the Funds are likely to have a reduced ability to influence management of such companies. A Fund, through HoldCo, may also have disagreements with controlling shareholders over the strategy and operations of such companies. As a result of the foregoing, the Funds' investments in such companies may perform poorly. The likelihood of holding non-controlling interests is increased when investing in regulated institutions such as banks and insurance companies. For example, since HoldCo intends to manage the investments of each Fund in a manner that would prevent the Fund from becoming a bank holding company, there are limitations regarding the amount of control the Fund can have in such bank institutions, including limitations on equity ownership and the appointment of directors.

**Third Party Information and Models.** The Funds will rely heavily on third party data and other information that is obtained from various sources—third-party data services providers, publicly-available information, information obtained from market participants, and information received from companies, among others. Although the Funds, through HoldCo, will evaluate all such information and may seek independent corroboration when HoldCo considers it appropriate and when independent corroboration is reasonably available, the Funds often will not be in a position to confirm the completeness, genuineness or accuracy of such information and, in some cases, complete and accurate information is not available. The Funds' investments rely on the accuracy of such information and they may not perform as expected if such information is inaccurate. The Funds' investments will also depend on HoldCo's analytical models. All models ultimately depend on HoldCo's judgment and the assumptions embedded in the models. To the extent that, with respect to any investment, the judgment or assumptions are incorrect, the Funds could suffer losses. Moreover, HoldCo has compiled certain data that it believes to be highly proprietary and not widely disseminated. To the extent that such data become more widely available, there is risk HoldCo will lose some of its proprietary edge, which could result in lower performance by the Funds.

**Reliance on Certain Relationships.** HoldCo has relationships with intermediaries, financial institutions, investment bankers, commercial bankers, financial advisers, attorneys, accountants, consultants and other individuals within their networks. HoldCo more specifically has unique relationships with certain parties associated with issuers of collateralized debt obligations ("CDOs"), including CDO investors, CDO indenture trustees, indenture trustees of trust preferred securities ("TruPS"), CDO managers, and certain professionals who provide services to these parties. HoldCo's ability to use its network of relationships is vital to, among other things, sourcing investment opportunities. Since HoldCo expects that many investments may be sourced away from traditional broker-dealers trading desks, these relationships are of particular importance. Thus, if HoldCo fails to maintain its existing relationships or develop new relationships, the Funds' investment performance may suffer.

**Credit Default Swaps.** Credit default swaps can be used to implement HoldCo's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, a Fund may sell credit default protection in which it receives a premium to



take on the risk. In such an instance, the obligation of the Fund to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. A Fund may also buy credit default protection with respect to a referenced entity if, in HoldCo's judgment, there is a high likelihood of credit deterioration. In such instance, the Fund will pay a premium regardless of whether there is a credit event.

**Vulnerability to Interest Rate Changes.** Many of the securities in which the Funds invest or may invest will be fixed-rate debt or similar securities or instruments, and therefore will decline in value when interest rates rise. Also, because the value of real estate and certain other assets often declines when interest rates rise, the value of some of the collateral underlying the securities in which the Funds invest may decline at the same time as the securities themselves. Therefore, rising interest rates could substantially reduce the value of the Funds' investments and the price the Funds would receive if they tried to dispose of such investments.

**Contingent Liabilities on Disposition of Investments.** In connection with the disposition of a Fund's investment in a portfolio company, the Fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. The Fund also may be required to indemnify the purchasers of such Fund's investment to the extent that any such representations are inaccurate or with respect to certain potential liabilities. These arrangements may result in the incurrence of contingent liabilities for which reserves or escrows may need to be established.

**Fraud.** The Funds may make or invest in loans that may subject the Funds to the risk of fraud. Of paramount concern in loan transactions is the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Funds to perfect or effectuate a lien on the collateral securing the loan. The Funds will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Funds may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Activist Investing.** The Funds may make investments where HoldCo believes significant activism is necessary in order to "unlock" value. Such activism may require, among other things, (1) identifying companies where investment returns can be achieved through corporate and/or strategic action, (2) driving forward a corporate restructuring (for example, among other things, a sale/merger transaction, a liquidation, a bankruptcy plan, a voluntary exchange of securities, a demutualization, or other restructuring), (3) garnering consent of a company's board of directors, officers, shareholders, and other stakeholders, (4) enforcing rights through litigation, or (5) changing the corporate governance of a company.

In order to implement any actions deemed necessary to maximize value, HoldCo, or other members of the investing group, may work with the management team of the target company to design an alternate strategic plan and assist them in its execution and may secure the appointment of persons selected by HoldCo to the company's management team or board of directors. HoldCo's Funds may also initiate investor actions (including those that may be opposed by company management). Such investor actions may include, among other things, re-orienting management's operational focus, initiating the sale of the company (or one or more of its divisions) to a third party, or an acquisition by the Fund or other members of the investing group. In order to accomplish the foregoing, HoldCo may cause the Fund to acquire a "control" position in the company's securities.

Corporate governance strategies may prove ineffective for a variety of reasons, including: (i) opposition of the management or investors of the subject company, which may result in litigation and may erode, rather than increase, the value of the subject company's securities; (ii) intervention of a governmental

agency; (iii) efforts by the subject company to pursue a “defensive” strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) market conditions resulting in material changes in prices; (v) the presence of corporate governance mechanisms such as staggered boards, poison pills and classes of stock with increased voting rights; and (vi) the necessity for compliance with applicable securities laws. In addition, opponents of a proposed corporate governance change may seek to involve regulatory agencies in investigating the transaction or the Funds and such regulatory agencies may independently investigate the participants in a transaction, including the Funds, as to compliance with securities or other laws. Furthermore, successful execution of a corporate governance strategy may depend on the active cooperation of investors and others with an interest in the subject company. Some shareholders may have interests which diverge significantly from those of the Fund, and some of those parties may be indifferent to the proposed changes. Moreover, securities that HoldCo believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the timeframe HoldCo anticipates, even if a corporate governance strategy is successfully implemented. Even if the prices for a subject company’s securities have increased, no guarantee can be made that there will be sufficient liquidity in the markets to allow the Funds to dispose of all or any of its securities therein or to realize any increase in the price of such securities.

Activism, restructurings and negotiations related to distressed securities, bank loans and other investments of the Fund can be contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. It is possible that HoldCo or a Fund may be named as defendants in proceedings. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments will generally be borne by the applicable Fund and may reduce performance. Moreover, HoldCo expects that its investment strategy generally may require the use of significant legal resources, such as bankruptcy, litigation, regulatory (for example bank and insurance), and corporate counsel. These legal costs may reduce the performance of a Fund. Because much of a Fund’s strategy involves pursuing smaller “off-the-run” strategies, risk related to legal resources may be exacerbated because such legal resources may be, in percentage terms, a greater component than in larger situations where costs can be borne by a larger asset base. For example, the costs of developing a bankruptcy plan of reorganization in a small company with fewer assets will likely be a larger expense in percentage terms than in a large company where expenses can be spread over a larger asset base. As a result of the foregoing, HoldCo relies on obtaining legal services on a cost effective basis as part of its strategy, and to the extent HoldCo is not able to do so, this may reduce the performance of the Fund.

**Equity Activism.** The Funds may pursue an activist role and seek to effectuate corporate changes with respect to an investment. The costs in time, resources and capital involved in such activist investments depend on the circumstances, which are only in part within the applicable Fund’s control, and may be significant, particularly if litigation against the Fund and/or HoldCo ensues. In addition, the expenses associated with an activist investment strategy, including potential litigation, expenses related to the recruitment and retention of board members, proxy solicitors, public relations firms, executives and other individuals providing business assistance to HoldCo in connection with an activist campaign (including, for example, consultants and corporate whistle-blowers) or other transactional costs, will be borne by the applicable Fund. Such expenses may reduce returns or result in losses.

The success of a Fund’s activist investment strategy may require, among other things: (i) that HoldCo properly identifies portfolio companies whose equity prices can be improved through corporate and/or strategic action; (ii) that the applicable Fund acquire sufficient securities of such portfolio companies at a sufficiently attractive price; (iii) a positive response by the management of portfolio companies to shareholder engagement; (iv) a positive response by other shareholders to shareholder activism and the Fund’s proposals; and (v) a positive response by the markets to any actions taken by portfolio companies in response to shareholder activism. None of the foregoing can be assured.

Activist strategies employed in respect of a Fund's investments may prove ineffective for a variety of reasons, including: (i) opposition of the management, board and/or shareholders of the subject company, which may result in litigation and may erode, rather than increase, shareholder value; (ii) intervention of one or more governmental agencies; (iii) efforts by the subject company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the Fund's; (iv) market conditions resulting in material changes in securities prices; (v) the presence of corporate governance mechanisms, such as staggered boards, poison pills and classes of shares with increased voting rights; and (vi) the necessity for compliance with applicable securities laws. In addition, opponents of a proposed corporate governance change may seek to involve regulatory agencies in investigating the transaction or the Fund and such regulatory agencies may independently investigate the participants in a transaction, including the applicable Fund, as to compliance with securities or other law. This risk may be exacerbated to the extent the Fund develops and utilizes novel activist strategies. Furthermore, successful execution of an activist strategy may depend on the active cooperation of shareholders and others with an interest in the subject company. Some shareholders may have interests which diverge significantly from those of the applicable Fund and some of those parties may be indifferent to the proposed changes.

Moreover, securities that HoldCo believes are fundamentally underpriced or incorrectly priced may not ultimately be valued in the capital markets at prices and/or within the time frame HoldCo anticipates, even if an activist strategy is successfully implemented. In respect of portfolio companies in which a Fund holds a long position, even if the prices for a portfolio company's securities increase, no guarantee can be made that there will be sufficient liquidity in the markets to allow the Fund to dispose of all or any of its securities therein or to realize any increase in the price of such securities. The converse applies equally in respect of portfolio companies in which the Fund holds a short position.

**Regulatory Restrictions on the Ownership of Securities.** The investment strategies pursued by a Fund may be affected by applicable U.S. state and federal laws and regulations governing the beneficial ownership of public securities, which may inhibit a Fund's ability to freely acquire and dispose of certain securities. Should such Fund be affected by such rules and regulations, it may not be able to transact in ways that would realize value for the Fund.

In addition, any changes to government regulations could make some or all forms of activist strategies unlawful or impractical. Accordingly, such changes, if any, could have an adverse effect on the ability of a Fund to achieve its investment objective.

**Litigation.** Reorganizations and, more generally, negotiations related to distressed securities, bank loans and other investments of the Funds can be contentious and adversarial. It is by no means unusual for participants in such investments to use the threat of, as well as actual, litigation as a negotiating technique. HoldCo and any of the Funds, and perhaps certain of their larger investors, may be named as defendants in civil proceedings, regardless of whether such proceedings are meritorious. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Funds and would reduce net assets or could require investors in the Funds to return distributed capital and earnings.

If any civil or criminal lawsuits resulted in a finding of substantial legal liability or culpability, the lawsuit could materially and adversely affect a Fund's business, results of operations and financial condition or cause significant reputational harm, which could seriously impact the Fund's ability to conduct its business. The Funds and HoldCo depend to a large extent on business relationships and a reputation for integrity to source investment opportunities for the Funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to the applicable Fund, as well as negative publicity and press speculation about the Fund or its investment activities, whether or not valid, may harm the applicable Fund's and HoldCo's reputation, which may be more damaging to the applicable Fund than to other types of businesses.

**Distressed Investments.** The Funds invest in issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings and in securities that are non-performing or in default. These may be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to a Fund's investment in any instrument, and a significant portion of the obligations and securities in which a Fund invests may be below investment grade or have no rating. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that HoldCo will correctly evaluate the value of an investment in a distressed issuer or the prospects for a successful reorganization or similar action will be correctly evaluated. In any reorganization or liquidation proceeding relating to a company in which a Fund invests, the Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Fund's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Fund's investments may not be adequate for the risks assumed.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals, including regulatory approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to a Fund of the security in respect to which such distribution was made.

A Fund's investments in distressed issuers may take various forms including claims, debt and debt-like instruments, equity and equity-like instruments, and loans. All of the foregoing investments may be in the form of newly issued instruments or purchased on a secondary basis.

A Fund's investment program may include investments in bank loans and participations, including through new loan origination. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of a Fund to directly enforce its rights with respect to participations. In analyzing each bank loan, a Fund, through HoldCo, compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the relevant Fund. Such loans may also include loans to companies that have filed for protection under Chapter 11 of the U.S. Bankruptcy Code. These debtor-in-possession or "DIP" loans are most often asset-based, revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a bankruptcy court order, it is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.

Distressed investments may be in small and mid-capitalization issuers that are “off-the-run.” These smaller situations have unique risks associated with them including additional illiquidity risk, less experienced management or unsophisticated trustees (such as inexperienced Chapter 7 trustees). These small, “off-the-run” may also be more difficult to source than larger more liquid distressed situations.

**High-Yield Securities and Unrated Debt.** The Funds invest in high-yield securities, below investment grade, or unrated debt. Such securities are generally not exchange-traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent and less liquid than the exchange-traded marketplace. In addition, the Funds invest in bonds of issuers that do not have publicly-traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer’s inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

**Loans.** The Funds invest in secondary or new issue bank loans and participations, including loans purchased from national or regional banks or non-bank lending companies or loans originated directly by HoldCo which may include, without limitation, commercial loans, mortgages (including residential, office, hotel, restaurant, undeveloped property and other real-estate loans), consumer loans, individual or pools of non-performing loans, and bank debt. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors’ rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) with respect to participations, limitations on the ability of the Funds to directly enforce its rights and counterparty credit risk considerations. In analyzing each bank loan or participation, the Funds compare the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Funds. The obligor of such loans may include small businesses without audited financials or consumer loans where there are substantial additional rules and regulations involving collections that pose additional risks. Investments in loans pose additional risks that may occur from defective or improper documentation such as improperly perfected security interests. Servicing and collecting on loans, especially stressed or distressed loans, pose additional challenges, and require significant time and expenses, including legal expenses, that may reduce returns or even create losses for the Funds. Such loans may be unsecured or secured by assets whose value has experienced significant diminution. As part of working out and collecting on loans, the Funds may end up holding real assets (such as real estate or other collateral), that require significant time and expense to maintain.

**Equity Securities.** The Funds invest in equity securities and equity derivative securities. Equity securities, unlike debt securities, do not have a stated maturity and it is uncertain when, if ever, the applicable Fund will receive its invested amounts or expected returns on such investments. The value of these securities generally will vary with the performance of the issuer and movements in the equity markets. As a result, the Funds may suffer losses if it invests in equity instruments of issuers whose performance diverges from HoldCo’s expectations or if equity markets generally move in a single direction and the applicable Fund has not hedged against such a general move. The Funds also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private

placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale. In addition, if the issuer of an equity security becomes insolvent, such equity security may lose most or all of its value.

**Sovereign Debt.** The Funds may invest in sovereign debt obligations, including stressed or distressed obligations. Investments in sovereign debt involve a high degree of risk. The governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or pay interest when due in accordance with the terms of such debt. A governmental entity's willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange and favorable foreign exchange rates on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity's policy towards the International Monetary Fund and the political constraints to which a governmental entity may be subject. Governmental entities may also be dependent on expected disbursements from foreign governments, multilateral agencies and others to reduce principal and interest arrears on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a governmental entity's implementation of economic reforms and/or economic performance and the timely service of such governmental entity's obligations. Failure to implement such reforms, achieve such levels of economic performance, or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the governmental entity, which may further impair such entity's ability or willingness to timely service its debts. Consequently, governmental entities may default on their sovereign debt. Holders of sovereign debt, including the Funds, may be requested to participate in the rescheduling of such debt and to extend further debts to governmental entities. There is no bankruptcy proceeding through which sovereign debt on which a governmental entity has defaulted may be collected in whole or in part.

**Municipal Debt.** The Funds may invest in municipal debt, including stressed or distressed municipal debt obligations. Various factors may adversely affect the value and yield of municipal securities. These factors include political or legislative changes and uncertainties related to the tax status of municipal securities or the rights of investors in these securities. If a Fund invests heavily in particular municipality's securities, it will be more vulnerable to factors affecting that municipality. A Fund's investments in revenue securities, where principal and interest payments are made from the revenue of a specific project or facility, and not general tax revenues, may have increased risks. Factors affecting the project or facility, such as local business or economic conditions, could have a significant impact on the project's ability to make payments of principal and interest on these securities. Investments in stressed and distressed municipal obligations may pose additional risks as a result of the uncertainty and complexity surrounding bankruptcy and insolvency laws related to these obligations.

**Event-Driven Investing and Special Situations.** The Funds pursue opportunities that are either event-driven or other "special situations." HoldCo believes that such investment strategies are attractive because situational complexity and market dynamics can lead to significant price distortions. Special situations are often characterized by (i) extraordinary corporate events; (ii) complex operating businesses, capital structures, and securities; (iii) transitions in credit quality; (iv) legal and regulatory changes; and/or (v) limited research coverage. Investment opportunities in special situations may at times occur in companies in or exiting bankruptcy, spin-offs, rights offerings, liquidations, companies for which litigation is a major asset or liability, misunderstood or underfollowed companies, or other special situations. The complexity inherent in these special situations can introduce uncertainty which HoldCo believes often masks the underlying value of businesses, securities, and other financial instruments. Such uncertainty creates risk profiles that HoldCo believes are often outside the core competencies and mandates of many traditional investment advisers. In addition, HoldCo believes that the collective effect of these dynamics can create exaggerated market activity, which can result in inefficient pricing of assets, securities, and other financial instruments relative to their intrinsic values.

Event-driven and special situation investing may require HoldCo to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the foreseen effect, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as HoldCo had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value and fail to implement it, resulting in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to the Funds of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of national or local regulatory agencies or bodies; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable securities laws; and (vii) inability to obtain adequate financing. Because of the inherently speculative nature of event-driven investing, the results of the Funds' operations may be expected to fluctuate from period to period. Accordingly, investors should understand that the results of a particular period will not necessarily be indicative of results that may be expected in future periods.

**Bankruptcy Investments.** The Funds participate in bankruptcy investment opportunities through a variety of structures. For example, they may invest in claims, loans, equity interests, or may be a named new money investors in a plan of reorganization. Investments in bankruptcies are illiquid, generally do not pay interest, and there can be no guarantee that the debtor will ever be able to satisfy the obligation of such claim, loan, or equity interest. The markets for bankruptcy claims are not generally regulated by federal securities laws or the SEC. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment. If a Fund is a named new money investor in a bankruptcy plan, there is risk that the plan does not move forward or as time passes, certain events occur that make the investment less attractive than initially anticipated but the Fund still has an obligation to fund. Investing in bankruptcy restructurings may be complicated, resource-intensive, and difficult to execute. Moreover, there is additional risk with respect to bankruptcies in highly regulated institutions such as bank holding companies, including the risk of regulators disapproving of a transaction or the risk of a "run on the bank" for a holding company in bankruptcy while the subsidiary is still an operating depository institution.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the stakeholders. While stakeholders generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of the Funds.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Funds; is subject to unpredictable and lengthy delays; and during the process, the company's competitive position may erode, key management may depart, and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets.

Furthermore, there are instances where creditors and equityholders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those cases where a Fund, by virtue of such action, is found to exercise “domination and control” of a debtor, the Fund may lose its priority if the debtor can demonstrate that its business was adversely impacted or other creditors and equityholders were harmed by the Fund.

HoldCo, on behalf of a Fund, may elect to serve on creditors’ committees, equityholders’ committees or other groups to ensure preservation or enhancement of the Funds’ position as a creditor or equityholder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents which may conflict with its duties owed to the Funds. In addition, if the Funds are represented on a committee or group, they may be restricted or prohibited under applicable law from disposing of or increasing their investments in such company while it continues to be represented on such committee or group.

The Funds may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser. Additionally, the claim may be disallowed or subordinated if the bankruptcy court determines that the seller engaged in inequitable conduct that harmed other creditors.

The Funds may invest in loans, claims and other debt that may subject the Funds to the risk of equitable subordination. Under common law principles that in some cases form the basis for lender liability claims, if a lender (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender, claimant or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called “equitable subordination”). The Funds do not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the Funds may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the Fund should be equitably subordinated.

**Investments Across Industries.** The Funds may invest in companies across all industries, including but not limited to agriculture, grocery, accounting, health care, advertising, aerospace, aircraft, legal, airline, manufacturing, apparel and accessories, motion picture and video, automotive, music, banking, newspaper publishers, broadcasting, government and municipalities, brokerage, biotechnology, pharmaceuticals, call centers, cargo handling, publishing, chemical, real estate, retail and wholesale, consulting, consumer products, service, cosmetics, software, department stores, insurance, education, technology, electronics, telecommunications, energy, television, entertainment and leisure, transportation, trucking and financial services. HoldCo may not have experience or expertise across all industries and may not be familiar with particular nuances of making investments across all industries. Further, HoldCo may not perform a thorough enough risk analysis of an industry which could affect the expected performance of an investment. Investments in certain industries may also be considered less liquid.

**Investments in Financial Institutions.** The Funds invest in a variety of public and private financial institutions, including depository institutions (including national, regional and community banks), insurance companies, REITs, business development companies, leasing companies and specialty finance companies, among others, through a variety of instruments including loans, debt and debt-like instruments, or equity and equity-like instruments, many of which may be in various stages of distress.



**Investments in Closed-End Funds.** The Funds may invest in closed-end investment companies that are not purchased and redeemed by investors directly with the closed-end fund, but instead are purchased and sold through broker-dealers in transactions on a stock exchange. Because closed-end fund shares are traded on an exchange, they may trade at a discount from or a premium to the net asset value per share of the underlying portfolio of securities. Investors in closed-end funds bear a proportionate share of the expenses of those funds, including management fees, custodial and accounting costs, and other expenses. Trading in closed-end fund shares also entails payment of brokerage commissions and other transaction costs.

**Investments in Banks.** The Funds' investments in financial institutions include investments in regional and community banks. The performance of regional and community banks are affected by many factors including economic and political conditions, broad trends in business and finance, bank regulation and legislation, monetary and fiscal policies, change in interest rates, inflation, market conditions, and confidence in the safety and soundness of the banking system. In addition to being subject to risks that may impact the banking industry, regional and community banks are affected by many factors, including:

- *Liquidity Risk:* The management of a bank must ensure that sufficient funds are available to meet demands of capital providers, depositors, as well as borrowers.
- *Asset Quality and Credit Risk:* The assets of a bank are subject to the creditworthiness of its borrowers as well as the value of the assets securing such loans.
- *Capital Risk:* A bank's capital position is important to its overall financial condition, serves as a cushion against losses, and closely watched by regulators—to the extent that regulators believe that a particular bank has insufficient capital, it could be placed under FDIC-receivership.
- *Earnings Risk:* Earnings are the primary means for financial institutions to generate capital to support asset growth, to provide for loan losses and to support their ability to pay dividends to stockholders.
- *Management Risk:* The ability of management to identify, measure, monitor and control the risks of an institution's activities and to ensure a financial institution's safe, sound and efficient operation in compliance with applicable laws and regulations are critical.
- *Litigation Risk:* Financial institutions face significant legal risks in their businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high.
- *Market Risk:* The financial institutions in which the Funds may invest are directly and indirectly affected by changes in market conditions including, but not limited to, fluctuations in interest rates, equity and futures prices, changes in the implied volatility of interest rates, and price deterioration or changes in value due to changes in market perception or actual credit quality of the issuer.
- *Competition:* The financial services industry, including the banking sector, is extremely competitive and such pressure may result in negative results in any particular investment.
- *Monetary Policy Risk:* Monetary policies have had, and will continue to have, significant effects on the operations and results of financial institutions. There can be no assurance that a particular financial institution will not experience a material adverse effect, for example with respect to its net interest margin, depending on the interest rate environment.

- *Regulatory Risk:* Banks are subject to various state and federal banking regulations that are subject to change, and such regulations, or change in regulations, may have a negative adverse impact on such institutions.

The Funds invest in a variety of different instruments issued by banks including loans, debt (senior, subordinated, or TruPS), preferred equity (including TARP), and common equity. Certain securities, particularly debt securities and certain hybrid capital instruments, may be long-dated in nature and may contain provisions that enable the issuing institution to defer payment of interest or dividends without resulting in bankruptcy or default. Furthermore, even though an institution has the financial capacity to make such payments, regulatory approval may be withheld to make such payment, and in the absence of such approval, the issuing institution will not be able to make such interest or dividend payment to the Funds. The longer-term nature of these instruments limits the liquidity of these instruments and may increase the risk of holding these investments. Investments in holding companies generally subject investors to increased risks because holding companies generally hold all their assets in their subsidiaries and are dependent on distributions from their subsidiaries to service their interest obligations and for ultimate principal repayment. In the event of a default or a bankruptcy, holders of securities issued by holding companies may suffer from increased losses.

Any investment in a depository institution has the risk of losses that may occur if the bank fails. The Funds may invest in banks that are in worse financial condition than a typical bank and the risk of a bank failure will be greater than average. In the case of a bank failure, for example through an FDIC-receivership, there is additional risk that the Funds' investment may experience losses, including a total loss of investment. Moreover, in periods of economic stress, the bank default rate may increase, which may have an adverse effect on the Funds' investments.

**Bank Regulations.** The banking institutions in which a Fund may invest in are subject to substantial regulations that could adversely affect their ability to operate and thus affect the value of a Fund's investments. Moreover, the Funds may become subject to adverse current or future banking regulations. None of the Funds are, or intend to become, a bank holding company ("BHC"). As such, there are significant restrictions in the amount of control, size, and type of investment the Funds may hold. For example, depending on the size of a Fund's investment in a BHC (which must be less than 25% of the BHC's outstanding voting equity securities and less than one-third of the BHC's outstanding total equity based on current regulations), the Fund will be limited in the number of board seats it may appoint, the amount of economic equity ownership it may hold, the amount of voting equity it may hold, the amount of influence it may exert over bank management, and amount of collaboration it may engage in with other investors (see "Non-Controlling Interests in Companies" for additional risks associated with minority investments and decreased influence with respect to corporate governance and control). The inability to have larger investments may have an adverse effect on returns since a Fund may be limited in investment size with respect to investments that may be viewed as particularly attractive. Also, a Fund's ability to invest in such banking institutions may require approval from one or more regulatory authorities, which may delay a Fund's ability to deploy capital, if such approval materialized in the first place. In addition, as a result of such investments, a Fund, and possibly its investors, may be required to provide certain disclosure to regulators and may be required to sign certain commitments, such as a "passivity commitment" that, among other things, may require that the Funds, HoldCo, or the Funds' investors stipulate that the respective party will not attempt to actively influence certain corporate governance matters and will limit its ownership to certain thresholds, among other things. Given the regulatory risks associated with banks, a Fund may be in a position where it sells its investment in order to avoid regulation, for example, to avoid becoming a BHC. In such instances, the Funds' performance may suffer losses due to the quick disposition of an illiquid asset and thus may not receive what HoldCo perceives to be fair value. Moreover, one of the Funds' investment strategies may include originating a new money loan or purchasing a loan in the secondary market secured by the stock of a bank. Due to regulatory issues, the Funds may choose not to or may be

unable to foreclose on the loan to obtain the bank equity, and if it does so, may quickly dispose the equity and not receive what HoldCo perceives as fair value.

**Certain Investments in Bank Equity.** The Funds invest in various forms of equity and equity-like instruments in financial institutions, including distressed financial institutions. Some instruments a Fund may invest in may include preferred stock issued by financial institutions under the U.S. Department of the Treasury's ("Treasury" or "Treasury Department") Troubled Asset Relief Program ("TARP") Capital Purchase Program, non-TARP preferred equity, common equity (voting and non-voting), warrants, and other structured equity instruments (see "Equity Securities" for general risks associated with an investment in equity securities). Equity and equity-like instruments associated with bank investment have additional risks associated with them including, among other things, dividends that may be deferrable on a cumulative or non-cumulative basis. In order to avoid certain regulatory requirements, a Fund may invest in non-voting equity which market participants may ascribe a lower value than similar securities with voting rights. Moreover, a Fund's investment in a bank may be related to a corporate restructuring, such as in connection with a mutual to stock conversion which is subject to some of the same risks described in "Investments in Insurance Company Demutualizations" below. As a result of the foregoing risks, a Fund's investments in bank equity and equity-like instruments may result in substantial losses to the Fund.

**Investments in Insurance Companies.** The Funds may make investments in insurance companies which may take various forms including loans, debt and debt-like instruments (including TruPS), and equity and equity-like instruments (including surplus notes) as well CDOs that invest in any of the foregoing. Direct and indirect investments in insurance companies carry certain risks including, but not limited to, the following:

- Catastrophic or other significant natural or man-made losses, including from political instability, acts of war or terrorism, which may negatively affect its financial and operating results;
- Downgrade the company's rating issued by a third party such as A.M. Best which could affect its ability to write new business or renew existing business thus decreasing its revenue and net income;
- The company may experience negative investment performance which affects its financial results and its ability to conduct business;
- The insurance industry is highly competitive and the company may not be able to compete, as well as may be exposed to cyclical factors in the insurance industry which may result in reduced premium volume;
- The company may be exposed to counterparty risk from reinsurance contracts which could result in negative financial results; and
- Insurance companies are highly regulated, and such current or future regulations may adversely affect the company's results.

**Investments in Insurance Company Demutualizations.** The Funds may invest in insurance companies in connection with a conversion from a mutual to stock company. Mutual to stock conversions are complicated and difficult to execute but HoldCo believes that they may provide attractive risk-adjusted returns to the extent such transactions are consummated. Investments in mutual to stock conversions in insurance companies are subject to all of the same risks described under "Investments in Insurance Companies" above, in addition to specific risks related to the conversion. As a part of any such conversion, stakeholders, including board members and officers, may receive employment contracts, subscription rights, and other benefits, such as an employee stock ownership plan ("ESOP") which dilutes the returns to the Funds and may result in decreased financial performance of such insurance company. The ability to

execute on such demutualizations is also subject to regulatory risks, associated costs, and timing delays which all may adversely affect the Funds' performance. The laws and regulations governing mutual to stock companies vary from state to state so the structure of any such conversion will be dependent on the specific regulations in each state. In addition, officers, directors, and other relevant stakeholders of such insurance companies have historically been resistant to demutualizing. As a result, there is significant risk a Fund may spend significant resources pursuing a strategy that result in few investment opportunities or no investment opportunity.

**Collateralized Debt Obligations.** The Funds may sponsor, organize, manage or invest in securities issued by CDOs ("CDO Securities"). Investments in a CDO are subject to various risks including the following credit, liquidity, interest rate and other risks:

- *Limited Diversification.* A CDO may invest in concentrated portfolios of assets ("CDO Collateral") that will collateralize the obligation of the CDO to make payments in respect of its CDO Securities. The concentration of the CDO Collateral in any one obligor would subject the holder of the related CDO Securities to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the holder of the related CDO Securities to a greater degree of risk with respect to economic downturns relating to such industry or region.
- *Leverage Risk.* The Funds' investment in CDO Securities involves significant leverage. Leverage is embedded in all classes of CDO Securities other than the most senior tranche. While the leverage presents opportunities for increasing a Fund's total return, it has the effect of potentially increasing losses as well.
- *Risks of Investment Focus.* The value of the CDO Securities owned by a Fund generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets included in the related CDO Collateral, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.
- *Interest Rate Mismatch.* CDO Securities are subject to significant interest rate risk. Some of the CDO Collateral of an issuer of a CDO bears interest at a fixed rate, while the CDO Securities typically bear interest at a floating rate. As a result, there could be a floating/fixed rate mismatch between such CDO Securities and the CDO Collateral.
- *Lower Credit Quality Securities.* There are no restrictions on the credit quality of the investments of the Funds. CDO Securities in which the Funds may invest may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. In general, the ratings of nationally recognized rating organizations represent the opinions of such agencies as to the quality of securities that they rate. Such ratings are relative and subjective; they are not guarantees of performance or absolute standards of credit quality and do not evaluate the market value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.
- *Liquidity of Markets.* At times in the past, the fixed income markets have experienced significant falloffs in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, a CDO may not be able to sell assets in its portfolio or may only be able to do so at unfavorable prices. Such "liquidity risk" could adversely impact the value of the Funds' portfolio, and may be difficult or impossible to hedge against.

- *Collateral Management.* In CDOs that are actively managed, a third party will act as the collateral manager for the CDO. In such managed CDOs, the performance of the CDO Securities will depend on the investment expertise of the collateral manager, and the collateral manager will receive fees from the CDO which may reduce the return received by a Fund on its investment in the related CDO Securities.

**CDO Collateral.** Through their investments in CDO Securities, the Funds will be exposed to all of the risks associated with the assets comprising the related CDO Collateral. The Funds may also acquire CDO Collateral directly and use such CDO Collateral to sponsor an offering of CDO Securities. Below are some of the risks associated with certain assets that may be included in the CDO Collateral of CDO Securities in which the Funds may invest directly or indirectly through its ownership of CDO Securities but the Funds may own CDO Securities that may be backed by assets that are not listed below.

- *Commercial Loans.* CDO Collateral may consist of commercial loans, in which case the related CDO will be a collateralized loan obligation or “CLO”. Such loans are typically negotiated by one or more commercial banks or other financial institutions and syndicated among a group of commercial banks and financial institutions and other investors. The loans will typically be to borrowers which have no ratings or below investment grade ratings and will generally be highly leveraged companies or “middle market” companies. Corporate loans are typically at the most senior level of the capital structure, and may be secured by specific collateral, including, but not limited to, trademarks, patents, accounts receivable, inventory, equipment, buildings, real estate, franchises and common and preferred stock of the obligor and its subsidiaries. The corporate loans included (or referenced) in a CDO Security may be of a type generally incurred by the borrowers thereunder in connection with a highly leveraged transaction, often to finance internal growth, acquisitions, mergers, stock purchases, or for other reasons. As a result of the additional debt incurred by the borrower in the course of the transactions, the borrower’s creditworthiness is often judged by rating agencies to be below investment grade. Certain of the loans included (or referenced in) a CDO Security may be “second lien” loans or loans that are subordinated to other obligations of the borrower. In order to induce the banks and institutional investors to invest in a borrower’s loan facility, and to offer a favorable interest rate, the borrower often provides the banks and institutional investors with extensive information about its business, which is not generally available to the public. Because of the provision of confidential information, the unique and customized nature of a loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly-traded security and historically the trading volume in the loan market has been small relative to the high-yield bond market.

Corporate loans often provide for restrictive covenants designed to limit the activities of the borrower in an effort to protect the right of lenders to receive timely payments of interest on, and repayment of principal of, the loans. Such covenants may include restrictions on dividend payments, specific mandatory minimum financial ratios, limits on total debt and other financial tests. Many recent loans are “covenant lite” loans under which covenants are only applicable if the borrower proposes to take a specified action. A breach of covenant (after giving effect to any cure period) in a loan that is not waived by the lending syndicate normally is an event of acceleration that allows the syndicate to demand immediate repayment in full of the outstanding loan. Loans usually have shorter terms than more junior obligations and may require mandatory prepayments from excess cash flow, asset dispositions and offerings of debt and/or equity securities. Generally, a borrower can prepay a loan at any time without paying a prepayment penalty.

The majority of corporate loans bear interest based on a floating rate index, the certificate of deposit rate, a prime or base rate (each as defined in the applicable loan agreement) or other index, which may reset daily (as most prime or base rate indices do) or offer the borrower a choice of one, two, three, six, nine or twelve month interest and rate reset periods. The purchaser of a loan may receive certain syndication or participation fees in connection with its acquisition. Other fees payable in respect of a loan, which are

separate from interest payments on such loan, may include facility, commitment, amendment and prepayment fees.

Purchasers of loans are predominantly commercial banks, investment funds, mutual funds and investment banks. As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly-traded security, and historically the trading volume in the loan market has been small relative to the high-yield debt market.

CDOs may acquire interests in loans and other debt obligations by way of sale, assignment or participation. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the loan or debt obligation; however, its rights can be more restricted than those of the assigning institution. In purchasing participations in loans, a CDO will usually have a contractual relationship only with the selling institution, and not the borrower. The CDO generally will have neither the right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor have the right to object to certain changes to the loan agreement agreed to by the selling institution. The CDO may not directly benefit from the collateral supporting the related loan and may be subject to any rights of set-off the borrower has against the selling institution. In addition, in the event of the insolvency of the selling institution, under the laws of the United States of America and the states thereof, the CDO may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the loan. Consequently, the CDO may be subject to the credit risk of the selling institution as well as of the borrower.

- *TruPS*. CDO Collateral may consist of TruPS. TruPS are generally issued by special purpose trust subsidiaries of financial institutions, insurance companies or REITs. The trust subsidiary uses the proceeds of the sale of its TruPS to purchase deferrable debentures (the "Corresponding Debentures") or other subordinated debt of its parent financial institution or holding company (the "Corresponding Debenture Issuer"). A trust's only source of cash to make payments on its TruPS will be the payments that it receives on the Corresponding Debentures from the Corresponding Debenture Issuers. The cash flow characteristics of the TruPS have maturities and coupons that mirror the Corresponding Debentures of the Corresponding Debenture Issuer.

TruPS issued by each trust will generally be redeemed when the Corresponding Debentures issued by its Corresponding Debenture Issuer are paid at maturity, or upon earlier redemption of the Corresponding Debentures. The TruPS may have varying coupon rates, distribution or payment dates and accrual periods, call prices and dates, maturity dates and other terms from one another.

Payments under the Corresponding Debentures, and in turn under the TruPS and the CDO securities that they underlie, are highly dependent upon payments received from the relevant Corresponding Debenture Issuer and its subsidiaries. Furthermore, adverse developments with respect to the financial, insurance and real estate industries in general may adversely affect the ability of a Corresponding Debenture Issuer to make payments under the Corresponding Debentures.

The obligations of each Corresponding Debenture Issuer will typically be unsecured, subordinate and junior in right of payment to all present and future senior indebtedness of such Corresponding Debenture Issuer. No payment of principal or premium, if any, or interest on any Corresponding Debenture may be made if (i) any payment due in respect of senior indebtedness of the issuing

Corresponding Debenture Issuer is not paid when due and any applicable grace period with respect to such default has ended with such default not having been cured or waived or ceasing to exist or (ii) the maturity of any senior indebtedness of the issuing Corresponding Debenture Issuer has been accelerated because of a default and such acceleration has not been rescinded or cancelled. In addition, Corresponding Debenture Issuers may be parties to agreements with holders of their senior indebtedness that have the practical effect of further subordinating the rights of holders of the Corresponding Debentures to such holders of their senior indebtedness under certain circumstances. Any Corresponding Debenture Issuer or any subsidiary of any Corresponding Debenture Issuer may incur additional indebtedness, secured or unsecured, including any senior indebtedness, without limitation.

The Corresponding Debentures are not insured or guaranteed by the regulatory authority of any financial institution, any governmental agency or instrumentality or any insurance guaranty fund. To the extent that the Corresponding Debenture Issuer is a holding company, its ability to make distributions on the Corresponding Debentures will be highly dependent upon the earnings of its subsidiaries, and its ability to receive payments from such subsidiaries in the form of dividends, fees, loans or distributions but such subsidiaries are not obligated to make payments under the Corresponding Debentures or otherwise pay or guaranty the payment of any amounts in respect of the TruPS.

There are also various legal and regulatory limitations on the extent to which a Corresponding Debenture Issuer's subsidiaries may extend credit, pay dividends or otherwise supply funds to the Corresponding Debenture Issuer or various of its affiliates. In particular, with respect to insurance companies, payments of dividends or Other Distributions to the Corresponding Debenture Issuer or its affiliates by the Corresponding Debenture Issuer's U.S. domiciled insurance company subsidiaries are subject to the various insurance regulatory restrictions of the states having jurisdiction over such insurance company subsidiaries. Such laws typically vary from state to state. Certain states generally require that any statutory surplus following any dividend or distribution be reasonable in relation to such subsidiary's outstanding liabilities and adequate to meet its financial needs and permit the payment of dividends only out of earned (unassigned), as opposed to contributed, statutory surplus. In addition, many states prohibit an insurance company, without prior notice to and approval of the applicable regulatory authority, to declare or pay an extraordinary dividend or to enter into certain agreements, loans, exchanges of assets and other transactions with a subsidiary, including its Corresponding Debenture Issuer. For insurance regulatory purposes, the surplus of an insurance company is generally determined on the basis of Statutory Accounting Practices ("SAP") prescribed or permitted by the state of domicile rather than generally accepted accounting principles. SAP generally is a more conservative measure of an insurance company's surplus.

The right of a Corresponding Debenture Issuer to participate in any distribution of assets of any of its subsidiaries upon liquidation, reorganization or otherwise will be subject to the claims of the creditors and any preferred equityholders of the applicable subsidiary, except to the extent that the Corresponding Debenture Issuer is recognized as a creditor of such subsidiary. Even if the Corresponding Debenture Issuer is recognized as a creditor of its insurance company subsidiary, its claims as such will likely be subordinated to those of policyholder creditors in the context of the liquidation of the insurance company subsidiary pursuant to the applicable state insolvency laws governing such liquidation. Accordingly, the Corresponding Debenture Issuer's Corresponding Debentures and guarantee will effectively be subordinated to all existing and future liabilities and preferred equity of the Corresponding Debenture Issuer's insurance subsidiaries.

A default in the payment of principal of or premium, if any, or interest on, or a deferral in interest payments on, any Corresponding Debentures will decrease the amount of cash available to the trusts to make payments on the related CDO Securities.

The terms and provisions of the TruPS may vary and such variations may be material. There can be no assurance that differences between the terms and provisions of some TruPS in comparison to the

terms and provisions of other TruPS will not have an adverse effect on the related CDO Securities that they underlie and, consequently, on the Funds. Prospective purchasers of the Interests should consider and assess for themselves the likely level of defaults and the likely level and timing of recoveries on the TruPS and on the CDO Securities that they underlie.

- *MBS and ABS.* CDO Collateral may consist of mortgage-backed securities (“MBS”) and other asset-backed securities (“ABS”). The risks discussed below with respect to such securities should be considered in addition to risks specific to CDOs themselves.

**TruPS.** The Funds invest in TruPS. See the risks described under “CDO Collateral— TruPS” above. HoldCo expects that its investments in TruPS will be associated with financial institutions that are in distress, including financial institutions that may be deferring interest on its TruPS or are in default in respect of its obligations related to its TruPS. Given the risks associated with investments in TruPS, the Funds’ investments in TruPS may result in losses to the Funds.

**Insurance Company Surplus Notes.** A Fund may make investments in insurance company surplus notes which are typically issued pursuant to the terms of an indenture which may differ significantly from issue to issue in order to, among other things, comply with various regulations that vary from state to state. Surplus notes are typically subordinated to senior indebtedness and other claims, including claims of policy holders. Like with all instruments issued by regulated financial institutions, regulators may prevent payment of their interest and principal. Surplus notes specifically may have provisions requiring that payments are only made from surplus and with prior regulatory approval. Surplus notes may have provisions that state that failure to pay in these instances will not constitute an event of default, which may prevent the Fund in pursuing enforcement actions.

**Investments in Real Property.** Direct or indirect investments in real property, which include both developed and undeveloped real estate, may expose a Fund to increased risks and liabilities that are inherent in the ownership of real property. For example,

- Ownership of real property may increase a Fund’s risk of liability under environmental laws that impose, regardless of fault, joint and several liability for the cost of remediating contamination and compensation for damages regardless of whether the liability could have been foreseen at the time of acquisition. Even in cases where a Fund is indemnified by a seller with respect to an investment against liabilities arising out of violations of environmental laws and regulations, there can be no assurance as to the financial viability of the seller to satisfy such indemnities or a Fund’s ability to achieve enforcement of such indemnities.

- Ownership of real property may present additional risk of liability for personal and property injury or impose significant operating challenges and costs, for example with respect to compliance with zoning, environmental, or other applicable laws.

- Real asset investments may face construction risks, including without limitation: (i) labor disputes, shortages of material and skilled labor, or work stoppages; (ii) slower than projected construction progress and the unavailability or late delivery of necessary equipment; (iii) less than optimal coordination with public utilities in the relocation of their facilities; (iv) adverse weather conditions and unexpected construction conditions; (v) accidents or the breakdown or failure of construction equipment or processes; (vi) catastrophic events such as explosions, fires and terrorist activities, and other similar events; and (vii) risks associated with holding direct or indirect interests in undeveloped land or underdeveloped real property. These risks could result in substantial unanticipated delays or expenses (which may exceed expected or forecasted budgets) and, under certain circumstances, could prevent completion of construction activities once undertaken. Certain real asset investments may remain in construction phases for a prolonged



period and, accordingly, may not be cash generative for a prolonged period. Recourse against the contractor may be subject to liability caps or may be subject to default or insolvency on the part of the contractor;

- The operation of real assets is exposed to potential unplanned interruptions caused by significant catastrophic or force majeure events. These risks could, among other effects, adversely impact the cash flows available from investments in real assets, cause personal injury or loss of life, damage property, or instigate disruptions of service. In addition, the cost of repairing or replacing damaged assets could be considerable. Repeated or prolonged service interruptions may result in permanent loss of customers, litigation, or penalties for regulatory or contractual non-compliance. Force majeure events that are incapable of, or too costly to, cure may also have a permanent adverse effect on an investment; and

- The management of the business or operations of a real asset may be contracted to a third-party management company unaffiliated with a Fund. Although it would be possible to replace any such operator, the failure of such an operator to adequately perform its duties or to act in ways that are in the best interest of the investment, or the breach by an operator of applicable agreements or laws, rules and regulations, could have an adverse effect on the investment. Real asset investments may involve the subcontracting of design and construction activities in respect of projects, and as a result are subject to the risk that contractual provisions passing liabilities to a subcontractor could be ineffective, the subcontractor fails to perform services that it has agreed to provide, and in cases where a single subcontractor provides services to various investments, the subcontractor becomes insolvent.

- Currently unforeseen environmental incidents may occur or past non-compliance with environmental laws or regulations may be discovered making it difficult to predict the future costs or impact of compliance;

Further, investments in real estate are subject to the risks inherent in the ownership and operation of real estate and real estate-related businesses and assets. These risks include those associated with the burdens of ownership of real property, general and local economic conditions, changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding), fluctuations in the average occupancy, the financial resources of tenants, changes in building, environmental and other laws, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates, changes in interest rates, the reduced availability of mortgage funds that may render the sale or refinancing of properties difficult or impracticable, negative developments in the economy that depress travel activity, environmental liabilities, contingent liabilities on disposition of assets, terrorist attacks, war and other factors that are beyond a Fund's or HoldCo's control. In addition:

- The success of certain investments will depend on the ability to restructure and effect improvements in the operations of the applicable properties, and there is no assurance that a Fund will be successful in identifying or implementing such restructuring programs and improvements;

- If a Fund acquires direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing, it will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of the Fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms; and

- The strategy with respect to a real estate investment may be based, in part, on the availability for purchase of assets at favorable prices followed by the continuation or improvement of market conditions or on the availability of refinancing. No assurance can be given that the real estate businesses or assets can be acquired or disposed of at favorable prices or that refinancing will be available.

Lenders in commercial real estate financing customarily require a “bad boy” guarantee, which typically provides that the lender can recover losses from the guarantors for certain bad acts, such as fraud or intentional misrepresentation, intentional waste, willful misconduct, criminal acts, misappropriation of funds, voluntary incurrence of prohibited debt and environmental losses sustained by the lender. For a Fund, “bad boy” guarantees would generally be extended to the Fund, its balance sheet or a combination of both depending on the ownership of the relevant asset. In addition, “bad boy” guarantees typically provide that the loan will be a full personal recourse obligation of the guarantor, for certain actions, such as prohibited transfers of the collateral or changes of control and voluntary bankruptcy of the borrower. It is expected that commercial real estate financing arrangements generally will require “bad boy” guarantees and in the event that such a guarantee is called, the Fund’s assets could be materially and adversely affected. Moreover, “bad boy” guarantees could apply to actions of any joint venture partners associated with the investment, and in certain cases the acts of such joint venture partner could result in liability to the Fund under such guarantees.

The acquisition, ownership and disposition of real properties carry certain specific litigation risks. Litigation may be commenced with respect to a property acquired in relation to activities that took place prior to the acquisition of such property. In addition, at the time of disposition, other potential buyers may bring claims related to the asset or for due diligence expenses or other damages. After the sale of a real estate asset, buyers may later sue a Fund for losses associated with latent defects or other problems not uncovered in due diligence.

A Fund may be subject to certain risks associated with investments in particular assets. REITs may be affected by changes in the value of their underlying properties and by defaults by borrowers or tenants. REITs depend on their ability to generate cash flow to make distributions and may be impacted by changes in tax laws or by a failure to qualify for tax-free pass through income. Investments in real estate debt may be unsecured and subordinated to a substantial amount of indebtedness. Such debt investments may not be protected by financial covenants. Non-performing real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of such loan. Investments in commercial mortgage loans are subject to risks of delinquency, foreclosure and loss of principal. In the event of any default under a mortgage loan held directly by a Fund, the Fund will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the loan. Investments in assets or businesses that are distressed may have little or no near-term cash flow and involve a high degree of risk. Such investments subject to bankruptcy or insolvency could be subordinated or disallowed.

In addition, investments in real assets may cause adverse tax consequences for certain non-U.S. investors regarding income effectively connected with the conduct of a U.S. trade or business and the imposition of certain tax withholding and may require investors to file tax returns and pay taxes in various state and local jurisdictions in the United States and abroad where these real assets are located.

**REITs.** The Funds invest in securities issued by REITs, including REIT TruPS, and such securities, in addition to the foregoing risks outlined associated with TruPS are also subject to the performance of the REIT, which in turn is subject to varying degrees of risk incident to the ownership and financing of real property.

**Mortgage-Backed Securities.** The Funds may invest in MBS, including residential mortgage-backed securities (“RMBS”) and commercial mortgage-backed securities (“CMBS”). The investment characteristics of MBS differ from traditional corporate debt securities. Among the major differences between MBS and traditional corporate debt securities are that interest and principal payments are made more frequently, usually monthly, that payments are only made in respect of defined assets and that the principal typically may be prepaid at any time because the underlying loans or other assets generally may

be prepaid at any time. Additional risks relating to investing in MBS may arise from the complexity of the MBS structure, variety and number of assets and quality of service providers responsible for managing monthly principal and interest payments on behalf of lenders. Investments in subordinated MBS, in particular, involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of MBS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the attributes typically associated with equity investments. Below are certain risks associated with RMBS and CMBS.

- *RMBS.* Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one-to four-family residential properties. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults and losses on residential mortgages will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower.

The rise in the rate of foreclosures of properties backing residential mortgages in certain states have prompted legislators, regulators and attorneys general at both the federal and state levels to try to prevent certain foreclosures and bring lawsuits against participants in the financing of residential mortgages, including issuers and underwriters of RMBS backed by such mortgages and investors in such RMBS (which may include a Fund). A program created by the U.S. government in cooperation with the mortgage lending and servicing industry, known as HOPE NOW, encourages servicers and lenders to work with certain troubled borrowers to restructure their mortgages to make the terms more affordable, which will reduce the return on such mortgages to the holders of any RMBS which include such mortgages. Restructuring of residential mortgages may extend the timeframe in which principal is repaid on RMBS and, in certain cases, may reduce the likelihood that principal is repaid in its entirety. Furthermore, lenders may voluntarily restructure residential mortgages without the consent of RMBS holders, which may violate the terms of loan documents between such holders and lenders. Ultimately, if a borrower defaults on a residential mortgage, foreclosure of such residential mortgage may be a lengthy and difficult process and may involve significant expenses. In addition, government policies may inhibit lenders from exercising legal rights in a default, which increases the risk of principal loss. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such area, such as adverse economic conditions, adverse events affecting industries located in such area and natural hazards affecting such area, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, such portfolio of RMBS may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than fully-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates and general economic conditions.

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

Residential mortgage loans in an issue of RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could also result in cash flow delays and losses on the related issue of RMBS.

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

Delinquencies, defaults and losses on residential mortgage loans may affect the performance of RMBS, in particular RMBS which are backed by subprime mortgage loans ("Subprime RMBS"). Subprime mortgage loans are generally made to borrowers with lower credit scores. Accordingly, mortgage loans backing Subprime RMBS are more sensitive to economic factors that could affect the ability of borrowers to pay their obligations under the mortgage loans backing these securities. Market interest rates fluctuate and, accordingly, with respect to subprime adjustable rate mortgage loans and hybrid mortgage loans that have entered or will enter their adjustable-rate period, borrowers are likely to experience increases in their monthly payments and become increasingly likely to default on their payment obligations if market interest rates were to increase. Discovery of fraudulent mortgage loan applications in connection with rising default rates with respect to subprime mortgage loans may indicate that the risks with respect to these mortgage loans are particularly acute at this time. Such risks may result in further increases in default rates by subprime borrowers as it becomes more difficult for them to obtain refinancing.

- *CMBS.* Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

Most commercial mortgage loans underlying MBS are effectively non-recourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. In the event of a foreclosure, a Fund could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. As a result, a Fund may be exposed to losses resulting from default and foreclosure. Any costs or delays involved in

the effectuation of a foreclosure of the mortgage or a liquidation of the underlying assets will further reduce the proceeds and thus increase the loss. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related MBS. Revenues from the assets underlying such MBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court appointed receiver to control collateral cash flow.

**Asset-Backed Securities.** A Fund may also invest in ABS, such as ABS backed by credit-card receivables, automobile loans, automobile leases, mobile home loans, aircraft leases and other financial assets. The investment characteristics of ABS differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time.

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

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

Additional risks relating to investing in ABS may arise from the complexity of the ABS structure, variety and number of assets and quality of service providers responsible for managing monthly principal and interest payments on behalf of lenders.

**Structured Credit Strategies.** Some of the Funds' strategies in structured credit, such as CDO Securities, TruPS, MBS and ABS and assets backing such assets, may involve various strategies including acquiring "control" positions of the issuers of such assets. Also, certain strategies may depend on the trustee's (or similar agent of the issuer) interpretation of indentures and other governing documents. To the extent a Fund is unable to acquire a "control" position or the trustee interprets provisions in an unfavorable way, the Fund's performance may suffer. Moreover, in certain strategies, the Funds may acquire securities that have lower risk-adjust returns than it may otherwise purchase with the intention of using this position to pursue alternative strategies that may "unlock" additional value. To the extent HoldCo is unsuccessful

in this strategy, a Fund may purchase such securities without being able to execute its strategy and its returns may suffer as a result.

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

**Special Purpose Acquisition Companies (SPACs).** The Funds may sponsor, organize, manage or invest in publicly-traded or private SPACs. Unlike normal companies with an established business, SPACs are so-called “shell” companies created for the sole purpose of ultimately acquiring an unspecified target company or other assets. SPACs generally invest the capital that they raised conservatively until a target company is identified. A SPAC may take months or years to execute the acquisition of a company, especially if there is an overabundance of SPACs looking for companies to merge with, which may result in heightened competition to earn deals at attractive terms and reduction of the potential upside when a merger is announced. If a SPAC is unable to identify a target, the SPAC may return its investors capital but not all SPACs will return all of the capital in all circumstances.

**Private Investment in Public Equities (PIPEs).** A PIPE is a private placement of securities of an already public company that is made to selected accredited investors (usually to selected institutional accredited investors). In a typical PIPE transaction, investors enter into a purchase agreement that commits them to purchase securities (typically at discounted prices) and usually requires the issuer to file a resale registration statement covering the resale from time to time of the privately purchased securities. PIPE investments are subject to substantial liquidity restrictions and investors may experience delays in selling or converting the shares to cash.

**Fintech Debt and Equity.** The Funds may invest in consumer or business credit products originated by financial technology (“Fintech”) companies as well as equity and debt securities issued by Fintech companies. Fintech credit products are debt assets that are highly illiquid and reliant on often novel underwriting and origination technologies and processes of the fintech companies, which often deviate materially from traditional credit underwriting and origination models. Fintech companies are often early-stage companies that may be undercapitalized and ill-equipped to compete with established credit companies. Therefore, investments in Fintech companies and credit products they originate may be subject to a high degree of illiquidity and risk.

**Purchase of All or Substantially All of a Portfolio Company.** The Funds may acquire all or substantially all of a portfolio company. The manner in which a Fund acquires a portfolio company may vary depending on the circumstances but could involve the Fund purchasing all or substantially all of the outstanding equity instruments in a portfolio company, engaging in a “loan-to-own” strategy by which it purchases debt instruments in a portfolio company and subsequently exchanges such debt for equity, through a privately negotiated transaction, or by other means. The purchase of all or substantially all of a portfolio company may expose the Fund to various risk. Below are some of the risks associated with purchase all or substantially all of a portfolio company:

*Controlling Interest.* A Fund may purchase a controlling stake in a portfolio company. These acquisitions may involve a number of risks, such as the risk of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability

in which the limited liability characteristic of business operations may be ignored. In addition, in connection with the disposition of these investments, the Fund may make representations and warranties about such investments' business and financial affairs typical of those made in connection with the sale of any business, or may be responsible for the contents of disclosure documents under applicable securities law. The Fund may also be required to indemnify the purchasers of such investments or underwriters to the extent that any such representations and warranties or disclosure documents turn out to be incorrect, inaccurate or misleading. All of these risks or arrangements may create contingent or actual liabilities, and materially affect the Funds.

Conversely, a Fund may only be able to acquire a minority ownership interest in a portfolio company and in such cases, the Fund will not exercise, or have only limited, management control of the portfolio company and will therefore be unable to direct or manage the business to realize the anticipated benefits that the Fund can achieve through full integration.

*Participation in Portfolio Company Affairs.* A Fund may substantially participate in or influence the conduct of affairs or management of a portfolio company it has acquired. Members, partners, officers, managers, employees or affiliates of HoldCo and its affiliates or designees may serve as directors of, or in a similar capacity with, companies which a Fund has acquired (or invested in). In the event that material non-public information is obtained with respect to such companies or a Fund becomes subject to trading restrictions pursuant to the internal trading policies of such companies or as a result of applicable law or regulations, a Fund may be prohibited for a period of time from purchasing or selling the securities of such companies, and as a result be prevented from increasing its exposure (or maintaining its relative ownership stake, in the case that additional securities are issued by such company) to an investment position which appreciates or divesting from or exiting an investment position which decreases in value. Any such restrictions may have a material adverse effect on a Fund and the value of its investment.

*Fiduciary Duties.* A Fund, either alone or otherwise, may accumulate a significant position in the securities of a portfolio company or purchase the entirety of a portfolio company. In doing so, a Fund may secure the appointment of persons selected by HoldCo to the portfolio company's management team or board of directors. In doing so, HoldCo may acquire fiduciary duties to the portfolio company and to the portfolio company's other shareholders. These fiduciary duties may compel HoldCo to take actions that, while in the best interests of the portfolio company and/or its shareholders, may not be in the best interests of the Fund. Accordingly, HoldCo may have a conflict of interest between the fiduciary duties (if any) that it owes to such portfolio company(ies) and its (their) shareholders, on the one hand, and those it owes to the Fund, on the other hand.

*Acquisitions Involve Unknown Risks.* A Fund's acquisition of all or substantially all of a portfolio company may involve unknown risks, some of which will be particular to the industry in which the acquisition targets operate, including risks in industries with which a Fund is not familiar or experienced. There can be no assurance a Fund's due diligence investigations will identify every matter that could have a material adverse effect on a Fund or the entities that it may acquire. A Fund may be unable to adequately address the financial, legal and operational risks raised by such acquisitions, especially if it (or HoldCo) is unfamiliar with the relevant industry, which can lead to significant losses on material investments. The realization of any unknown risks could expose a Fund to unanticipated costs and liabilities and prevent or limit a Fund from realizing the projected benefits of the investments or acquisitions, which could adversely affect a Fund's financial condition and liquidity. In addition, a Fund's financial condition may be adversely impacted depending on the specific risks applicable to any business it invests in or acquires and a Fund's ability to address those risks.

*Development of Services or Products.* Any portfolio company a Fund acquires will be subject to the risk that a proposed service or product cannot be developed successfully with the resources available to the enterprise. There can be no assurance that the development efforts of any portfolio company will be

successful or, if successful, will be completed within the budget or time originally estimated. Additional funds may be necessary to complete such development, to achieve market acceptance, to support expansion or to achieve or maintain competitive positions. The portfolio companies may not be able to obtain such funds on favorable terms, or at all.

*Competition in the Marketplace; Erratic Results.* A portfolio company acquired by a Fund may operate at a loss or with highly erratic operating results. Such companies may face intense competition, including competition from companies with much greater financial resources, much more extensive development, production, marketing and service capabilities and a much larger number of qualified managerial and technical personnel. A Fund may make significant investments in or purchases of companies in a number of sectors, some of which are rapidly changing, and such companies may face increased risks of product or service obsolescence. There can be no assurance that any particular portfolio company will succeed.

*Tax Consequences Associated with Acquisitions.* A Fund may incur significant taxes in connection with effecting acquisitions of, or investments in, holding, receiving payments from, operating or disposing of portfolio companies. A Fund's decision to acquire or sell all or substantially all of a portfolio company may be based on considerations other than the timing and amount of taxes owed as a result thereof. A Fund remains liable for certain tax obligations of certain disposed companies and may be required to make material payments in connection therewith.

*Portfolio Company Financial Projections Could Be Inaccurate.* A Fund may establish the capital structure of acquired portfolio companies on the basis of financial projections prepared by the management of such portfolio companies. These projected operating results will normally be based primarily on judgments of the management of the portfolio companies. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. General economic conditions, which are not predictable, along with other factors may cause actual performance to fall short of the financial projections that were used to establish a given portfolio company's capital structure. This could cause a substantial decrease in the value of the portfolio company. The inaccuracy of financial projections could thus cause the applicable Fund's performance to fall short of expectations.

*General Risks Associated with the Acquisition or Disposition of a Portfolio Company.* In acquiring or disposing of all or substantially all of a portfolio company, a Fund's success is dependent upon its ability to identify appropriate opportunities, negotiate transactions on favorable terms and ultimately complete such transactions. In the course of a Fund's acquisitions, it may not acquire or be able to acquire 100% ownership of a specific portfolio company or may face delays in completing certain acquisitions, including in acquiring full ownership of certain portfolio companies. Once a Fund completes an acquisition of a portfolio company there can be no assurance that it will realize the anticipated benefits of any transaction, including revenue growth, operational efficiencies or expected synergies. If a Fund fails to recognize some or all of the strategic benefits and synergies expected from a transaction, goodwill and intangible assets may be impaired in future periods. The negotiations associated with the acquisition and disposition of all or substantially all of a portfolio company could also disrupt a Fund's ongoing business, distract the management and HoldCo's employees or increase a Fund's expenses.

In addition, a Fund may not be able to integrate acquisitions successfully and could incur or assume unknown or unanticipated liabilities or contingencies, which may negatively impact the Fund. If a Fund disposes of or otherwise exits certain businesses, there can be no assurance that it will not incur certain disposition-related charges or that it will be able to reduce overhead related to the divested assets. A Fund will evaluate the potential disposition of assets and businesses that may no longer help it meet its objectives or that no longer fit with a Fund's broader strategy. When a Fund decides to sell all or substantially all of a portfolio company, it may encounter difficulty in finding buyers or alternative exit strategies on acceptable



terms in a timely manner, which could delay the accomplishment of its strategic objectives, or a Fund may dispose of a business at a price or on terms which are less than it had anticipated.

Further, there is a risk that a Fund sells a business whose subsequent performance exceeds a Fund's expectations, in which case a Fund's decision would have potentially sacrificed enterprise value.

In addition to the risks described above, acquisitions are accompanied by a number of inherent risks, including, without limitation, the following:

- The difficulty of integrating acquired products, services or operations;
- Difficulties in maintaining uniform standards, controls, procedures and policies;
- The potential impairment of relationships with employees and customers as a result of any integration of new management personnel;
- Difficulties in disposing of the excess or idle facilities of an acquired company or business and expenses in maintaining such facilities;
- The effect of and potential expenses under the labor, environmental, and other laws and regulations of various jurisdictions to which the business acquired is subject.
- The acquisition may have limited financial resources and may be unable to meet its obligations under its securities, which may be accompanied by a deterioration in the value of the acquisition's equity securities or any collateral or guarantees provided with respect to their debt or may require additional capital from a Fund;
- The acquired company is more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death, disability, resignation or termination of one or more of those persons could have a material adverse impact on their business and prospects;
- Acquisitions may be businesses or divisions acquired from larger operating entities that may require a rebuilding or replacement of financial reporting, information technology, operational and other functions;
- Acquired companies may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;
- Instances of bribery, fraud and other deceptive practices committed by senior management of portfolio companies that a Fund owns may undermine due diligence efforts with respect to such companies, and if such bribery, fraud or other deceptive practices are discovered, could negatively affect a Fund's valuation as well as contribute to overall market volatility that can negatively impact the Fund;
- A Fund may purchase all or substantially all of a portfolio company that it does not or cannot advantageously dispose of prior to the Fund's termination resulting in a lower than expected return;
- Executive officers, directors and employees of an equity sponsor, such as a Fund, may be named as defendants in litigation involving a company in which an investment is made or is being made, and a Fund may indemnify such executive officers, directors or employees for liability relating to such litigation;

- A Fund may acquire portfolio companies that operate in a variety of industries that are subject to extensive domestic and foreign regulation (including companies that supply services to governmental agencies), such as the defense and government services industry, the healthcare industry and oil and gas industry, which may involve greater risk due to rapidly changing market and governmental conditions in those sectors; and
- Significant failures of acquired portfolio companies to comply with laws and regulations applicable to them could affect the ability of a Fund to invest in other companies in certain industries in the future and could harm the Fund's reputation.

*Competition for Acquisitions.* HoldCo expects to encounter intense competition for business acquisition opportunities from both strategic investors and other entities with a similar business objective, such as private investors (which may be individuals or investment partnerships), blank check companies, private equity funds, and other entities, domestic and international, competing for the type of businesses that a Fund may acquire. Many of these competitors possess greater technical, human and other resources, or more local industry knowledge, or greater access to capital, than the relevant Fund, and the Fund's financial resources may be relatively limited when contrasted with those of many of these competitors. These factors may place the Fund at a competitive disadvantage in successfully completing acquisitions of operating business. In addition, while HoldCo believes there are numerous target businesses that could be potentially acquired, the ability to compete with respect to the acquisition of certain target businesses that are sizable will be limited by available financial resources. A Fund may need to obtain additional financing in order to consummate future acquisitions and investment opportunities and cannot guarantee that any additional financing will be available to the Fund on acceptable terms, or at all. This inherent competitive limitation gives others an advantage in pursuing acquisition and investment opportunities. Furthermore, any businesses that a Fund may acquire also face competition from both traditional and new market entrants that may adversely affect them as well.

*Due Diligence and Research Costs.* It is anticipated that the investigation of each specific potential acquisition and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments with respect to such acquisition will require substantial management time and attention and substantial costs for financial advisors, accountants, attorneys and other advisors. If a decision is made not to consummate a specific acquisition, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a specific acquisition, a Fund may fail to consummate the acquisition for any number of reasons, including those beyond the Fund's or HoldCo's control. Any such event could consume significant management time and result in a loss to the Fund of the related costs incurred, which could adversely affect the Fund's financial position and ability to consummate other acquisitions.

**Inability to Sell Securities in a Portfolio Company.** A Fund's investment in or ownership of portfolio companies may involve holding investments in securities that are not publicly traded. In many such cases, the Fund may be prohibited by contract or by applicable securities laws from selling such securities at many points in time. A Fund will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available, and then only at such times when the Fund does not possess material nonpublic information. The ability of a Fund to dispose of such investments is heavily dependent on the capital markets and in particular the public equity markets. For example, the ability to realize any value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investment is made. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing a Fund's investment returns to risks of downward movement in market prices during the intended disposition period.

Moreover, because a Fund's investment strategy, particularly in private equity-style investments, may entail having representation on the portfolio company's board, a Fund may be restricted in its ability to effect such sales during certain time periods. As each Fund has a finite term, it could also be forced to dispose of investments sooner than otherwise desirable. Accordingly, under certain conditions, a Fund may be forced to either sell a portfolio company or investments in a portfolio company at lower prices than expected to realize or defer sales that it had planned to make, potentially for a considerable period of time.

**Portfolio Company Legal and Regulatory Environment.** The Funds are subject to certain laws, such as certain environmental laws, takeover laws, anti-bribery, anti-money laundering and anti-corruption laws, escheat or abandoned property laws, antitrust laws and data privacy and data protection laws that may impose requirements on a Fund and its portfolio companies as an affiliated group. As a result, a Fund could become jointly and severally liable for all or part of fines imposed on its portfolio companies or be fined directly for violations committed by portfolio companies, and such fines imposed directly on a Fund could be greater than those imposed on the portfolio company. Moreover, portfolio companies may seek to hold the Fund responsible if any fine imposed on them is increased because of their membership in a larger group of affiliated companies.

**Ownership and Investments in Privately Held Companies.** A Fund may invest in, or potentially acquire, private companies. Investments in private companies pose certain incremental risks as compared to investments in public companies including that private companies:

- Have reduced access to the capital markets, resulting in diminished capital resources and ability to withstand financial distress;
- May have limited financial resources and (i) may be unable to meet their obligations under debt that a Fund holds, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of the Fund recovering its investment or (ii) may require substantial capital infusions after acquisition;
- May have shorter operating histories, narrower product lines and smaller market shares than larger business, which tend to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;
- Are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on a Fund's investee company and, in turn, on the Fund; and
- Generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing business with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion, or maintain their competitive position.

Finally, limited public information generally exists about private companies and these companies may not have third-party debt ratings or audited financial statements. The Funds must therefore rely on the ability of HoldCo's employees and advisors to obtain adequate information through due diligence to evaluate the creditworthiness and potential returns from investing in these companies. Additionally, these companies and their financial information will not generally be subject to the Sarbanes-Oxley Act and other rules that govern public companies. If the Funds are unable to uncover all material information about these companies, they may lose money on such investments.

**Tender Offers.** Certain of the Funds have in the past made tender offers for securities and may do so again in the future. A tender offer is a solicitation of all or nearly all holders of a certain security to purchase such securities at a given price or range of prices. Tender offers require the offeror, *i.e.* the Funds,

to agree to a price for the securities up front, and the tender offer can only be terminated or rescinded under specified conditions, which may or may not occur. Tender offers are also made without first soliciting the holders of the securities regarding their interest in selling, and such holders may not agree to sell their securities. In that circumstance, the applicable Fund or Funds will still incur approximately the same amount of fees and expenses as they would have in a successful tender offer, but will not have acquired any securities.

In addition, the SEC regulates tender offers, and any tender offer made by the Funds will be subject to such regulations. If a Fund fails to comply with the rules and regulations applicable to tender offers, the Fund could face adverse consequence from an investigation or prosecution related to such non-compliance.

**General Economic and Capital Market Conditions.** General economic and capital market conditions which are outside of the Funds' control may affect the activities of the Funds. These conditions may include changes in interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity and the value of the Funds' investments. HoldCo may not be able to or may choose not to manage a Fund's exposure to these market conditions and/or other events. In the event of a market downturn, each of the Funds' investments could be affected in different ways. Conversely, buoyant markets and positive economic conditions may make it more difficult and competitive to find suitable investments for a Fund and to effectively deploy capital. This could adversely affect a Fund's performance.

The global economy and capital and credit markets have experienced exceptional turmoil and upheaval over the past several years. Many major economies worldwide entered significant economic recessions in recent times and continue to experience economic weakness, with the potential for another economic downturn to occur. Ongoing concerns about the systemic impact of potential long-term and widespread recession and potentially prolonged economic recovery, volatile energy costs, geopolitical issues, the availability, cost and terms of credit, consumer and business confidence and demand, and substantially increased unemployment rates have all contributed to increased market volatility and diminished expectations for many established and emerging economies, including those in which the Funds operate. These general economic conditions could have a material adverse effect on a Fund's cash flow from operations, results of operations and overall financial condition.

Issuers in which the Funds may invest may face intense competition, changing business and economic conditions and other developments that may adversely affect their performance. Business risks may be more significant in issuers that are embarking on a build-up or operating a turnaround strategy. General fluctuations in the market prices of securities, including public securities market prices, may adversely affect the value of investments held by the Funds and/or the ability of the Funds to dispose of investments at attractive valuations. The Funds may be unsuccessful in structuring their investments to minimize any detrimental impact that a recession may have on its investments and as a result the Funds may suffer significant losses.

**Economic and Market Conditions in the U.S.** The Funds and the businesses of the companies in which they invests are materially affected by financial markets and economic conditions or events throughout the world, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts, security operations and riots). In the past, difficult market conditions and economic trends have adversely affected the financial services industry and the securities markets, which were materially and adversely affected by significant declines in the values of nearly all asset classes and by a pronounced lack of liquidity. These trends caused the global markets to have increased volatility and had a negative impact on investor

confidence in both financial institutions as well as a number of other industries and in the broader financial markets. Furthermore, general downward economic trends, reduced availability of commercial credit and increased unemployment can negatively impact the performance of commercial and consumer credit. At the present time, the markets are highly volatile and governments throughout the world, including the United States, continue to carry a significant amount of debt, partially as a result of the 2008 financial crisis, and are increasing such debts in response to the COVID-19 pandemic. Unfavorable or volatile market and economic conditions may reduce opportunities to make, exit and realize value from investments. Challenging market and economic conditions in the U.S., including those caused by changes in tax laws and other regulatory restrictions, may make it difficult to find suitable investments for a Fund or to exit and/or realize value from investments.

**Coronavirus Outbreak & Similar Pandemics.** The Covid-19 Coronavirus outbreak in Wuhan, China in 2019 and the subsequent global spread of the virus have resulted in widespread infections and fatalities. Governments in affected countries, including China, Japan, South Korea, the United States and European countries, have launched measures to combat the spread of Coronavirus, including travel bans, quarantines and lock-downs of affected areas. These measures in turn have led to slowdown in production and trade of goods and services which have adversely affected global economic activity and caused high unemployment, as well as turmoil and volatility in the global financial markets. A continued spread of the Coronavirus (or similar viral or bacterial pandemics) could have a severe adverse impact on global economic activity and lead to political, economic and social unrest and uncertainty throughout the world. These uncertainties could have a material adverse effect on investments in which the Funds invest and the business, financial condition, results of operations and prospects of the obligors or issuers of such investments. Any impact on such obligors or issuers could impair their ability to make payments due under such loans or securities which would adversely affect the performance of the Funds' investments.

**Political and Social Unrest.** The current U.S. political and social climate is one of uncertainty. More specifically, at the present time, in addition to the political and social disturbances caused by Covid-19 Coronavirus, there have been significant political and social unrest as a result of racial and social justice protests, riots and other public disturbances within the United States which have caused disruptions in operations and supply chains, damages to property and additional burdens on the U.S. economy. Any material changes in the economic environment resulting from political and social unrest, including economic contraction, a slow-down in economic growth, availability of credit and/or changes in interest rates or foreign exchange rates, could have a negative impact on the performance and/or valuation of the Funds' investments.

**Withdrawal of the United Kingdom from the EU.** On June 23, 2016, the people of the United Kingdom voted in a referendum to leave the European Union. The United Kingdom withdrew from, and stopped being a member of, the European Union on January 31, 2020. The legal, political and economic uncertainty generally resulting from the referendum result and withdrawal from the European Union may adversely impact United Kingdom-based businesses, may result in an economic slowdown and/or deteriorating business environment in the European Union and/or one or more EU members, and may impact the manner in which the Funds make investments with exposure to borrowers or issuers in one or more European Union members and/or the United Kingdom. Furthermore, whether or not a Fund invests in loans or securities of issuers located in the United Kingdom or the European Union or with significant exposure to the United Kingdom or European Union issuers or countries, these events could negatively affect the value and liquidity of a Fund's investments due to the interconnected nature of the global economy and capital markets.

In addition, the decision made in the British referendum and the withdrawal from the European Union may lead to a call for similar referendums in other European jurisdictions, which may cause increased economic volatility in the European and global markets. This uncertainty may have an adverse effect on

the economy generally and on the ability of the Funds to execute their strategies and to receive attractive returns. In particular, currency volatility may mean that the returns of the Funds and their investments which have exposure to borrowers in the United Kingdom or the European Union may be adversely affected by market movements and may make it more difficult, or more expensive, for the Funds to execute prudent currency hedging policies to the extent such hedges are necessary or desirable. Likewise, potential decline in the value of the British Pound and/or the Euro against other currencies, along with the potential downgrading of the United Kingdom's sovereign credit rating, may also have an impact on the performance of a Fund's investments with exposure to borrowers in the United Kingdom and/or certain EU members or may have an adverse effect on the global economy and capital markets in general.

**Non-U.S. Investments.** The Funds invest in non-U.S. issuers or assets. Non-U.S. investments involve certain risk factors not typically associated with investing in investments in the United States, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. currencies in which a Fund's investment may be denominated, and costs associated with conversion of investment principal and income from one currency into another, (ii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements, and differences in government supervision and regulation, and (iii) certain economic and political risks, including potential exchange-control regulations, potential restrictions on non-U.S. investment and repatriation of capital, the risks associated with political, economic or social instability, the possibility of imposition of withholding or other taxes on dividends, interests, capital gain, other income or gross sale or disposition proceeds and the possibility of expropriation or confiscatory taxation.

Investing outside the United States may involve greater risk than investing in the United States. These risks include: (i) fewer investor protections and less publicly available information; (ii) less (or more) governmental regulation and supervision; (iii) political hostility to investments by foreign investors; and (iv) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, foreign companies are generally not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies. In addition, the economies of foreign countries may differ favorably or unfavorably from the U.S. economy in areas such as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resource self-sufficiency and balance of payments position. To the extent the assets acquired internally by the Funds are stressed, distressed, or special situations, such risks, especially legal risks, may be especially heightened.

There generally is less governmental supervision and regulation of exchanges, brokers and issuers in foreign countries than there is in the United States. For example, there may be no comparable provisions under certain foreign laws to insider trading and similar investor protection securities laws that apply with respect to securities transactions consummated in the United States. Further, brokerage commissions, custodian fees and other transaction costs on foreign securities exchanges generally are higher than in the United States.

Foreign markets also have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in periods when assets of the issuer are uninvested and no return is earned thereon. The inability of a Fund to make intended purchases due to settlement problems or the risk of intermediary counterparty failures could cause the Fund to miss investment opportunities. The inability to dispose of an asset due to settlement problems could result either in losses to the Fund due to subsequent declines in the value of such asset or, if the Fund has entered into a contract to sell the security, could result in possible liability to the purchaser.

In many foreign countries there is the possibility of expropriation, nationalization or confiscatory taxation, restrictions on investments, limitations on the convertibility of currency or the removal of

securities, property or other assets of a Fund, political, economic or social instability or adverse diplomatic developments, each of which could have an adverse effect on a Fund's investments in such foreign countries and, consequently, materially impair the Fund's ability to pay principal of, interest on, and other amounts owing in respect of, the investments. In addition, investments based outside of the United States are subject to the risk of the possibility of restrictions on international trade or the imposition of tariffs.

**Investing in Emerging Markets.** Some of the countries in which the Funds elect to invest have economies or markets that are less developed and more volatile, and may have legal and regulatory regimes that are less established or predictable, than the U.S. and other developed markets. Some of these countries have in the past experienced severe economic disruptions, including extreme currency fluctuations, high inflation, low or negative growth, or defaults or potential defaults on sovereign debt, among other negative conditions, or have imposed restrictive monetary policies such as currency exchange controls and other laws and restrictions that adversely affect the local and regional business environment. In addition, these countries, as well as certain more developed countries, have recently been more susceptible to unfavorable political, social or economic developments; these developments have in the past resulted in, and may in the future lead to, social unrest, general strikes and demonstrations, crime and corruption, security and personal safety issues, outbreaks of hostilities, overthrow of incumbent governments, terrorist attacks or other forms of internal discord, all of which can adversely affect a Fund's investments in such countries or attempts to invest in such countries. Political, social or economic disruption or dislocation in certain countries or regions in which the Funds may invest can hinder the growth and profitability of those operations. Less developed legal and regulatory systems in certain countries can also have adverse consequences on a Fund's investments or attempts to invest in those countries, including, among others, the absence of a statutory or regulatory basis or guidance for engaging in specific types of business or transactions; the promulgation of conflicting or ambiguous laws and regulations or the inconsistent application or interpretation of existing laws and regulations; uncertainty as to the enforceability of contractual obligations; difficulty in competing in economies in which the government controls or protects all or a portion of the local economy or specific businesses, or where graft or corruption may be pervasive; and the threat of arbitrary regulatory investigations, civil litigations or criminal prosecutions, the termination of licenses required to operate in the local market or the suspension of business relationships with governmental bodies. Revenue from international operations and trading in non-U.S. securities and other obligations may be subject to negative fluctuations as a result of the above considerations, as well as due to governmental actions including monetary policies, expropriation, nationalization, confiscation of assets, price controls, capital controls, exchange controls, and changes in laws and regulations. The impact of these fluctuations could be accentuated as some trading markets are smaller, less liquid and more volatile than larger markets. Also, any of the above-mentioned events or circumstances in one country may affect Fund's operations and investments in another country or countries, including the Fund's operations in the U.S.

Investing in countries with less developed legal and regulatory regimes may require the Funds to devote significant additional resources to understanding, and monitoring changes in, local laws and regulations, as well as structuring its operations to comply with local laws and regulations and implementing and administering related internal policies and procedures. There can be no assurance that HoldCo will always be successful in its efforts to conduct its business in compliance with laws and regulations in countries with less predictable legal and regulatory systems or that it will be able to develop effective working relationships with local regulators. In addition, the Funds may also incur higher costs, and face greater compliance risks, in investing outside the U.S. to comply with U.S. anti-corruption and anti-money laundering laws and regulations.

**Cybersecurity Risk.** As part of its business, HoldCo processes, stores and transmits electronic information, including information relating to the Funds' transactions and personally identifiable information of the Funds' limited partners. Similarly, service providers of HoldCo or the Funds, especially the Funds' administrators, may process, store and transmit such information. HoldCo has procedures and

systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network connected services provided by third parties to HoldCo may be susceptible to compromise, leading to a breach of HoldCo's network. HoldCo's systems or facilities may be susceptible to employee error or malfeasance or other security threats. Breach of HoldCo's information systems may cause information relating to the Funds' transactions and personally identifiable information of the Fund's limited partners to be lost or improperly accessed, used or disclosed.

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

The loss or improper access, use or disclosure of HoldCo's or the Funds' proprietary information may cause HoldCo or the Funds to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Funds and the limited partners' investments therein.

**Dependence on Key Individuals.** The Funds' success depends upon HoldCo's ability to develop and implement investment strategies that achieve the Funds' investment objective. The Funds' performance is largely dependent on the talents and efforts of highly skilled individuals at HoldCo, including, Vik Ghei and Misha Zaitzeff. If the Funds were to lose the services of one or more of HoldCo's key members, the consequence to the Funds could be material and adverse.

**Risks Related to Remote Working and Moving Headquarters.** As a result of the Covid-19 Coronavirus (see "Coronavirus Outbreak & Similar Pandemics" above), HoldCo's employees have been working remotely since March 2020. Regardless of the status of the pandemic, some or all of HoldCo's employees may continue to work remotely. In addition, HoldCo intends to relocate its headquarters from New York City to southeastern Florida in 2021. The relocation of its headquarters, multiple offices or remote working arrangements may result in an elevated risk of supervisory, cybersecurity, and technology complications. Although HoldCo devotes significant time, resources and management focus to ensuring the integrity of its systems and facilities, such systems and facilities, and those of third-party service providers, are vulnerable to external or internal security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors, or other similar events. These events could interrupt the business or operations of HoldCo or the Funds, resulting in significant legal and financial exposure, supervisory liability, damage to the reputation of HoldCo or the Funds or a loss of confidence in the security of the systems, products and services of HoldCo or the Funds. Although the impact to date from these types of events has not had a material adverse effect on HoldCo or the Funds, it cannot be assured that this will be the case in the future.

Additional risk factors are set forth in the Funds' respective private placement memoranda and limited partnership agreements. Investors in the Funds are encouraged to review such risk factors.

C. As noted above, HoldCo does not recommend a particular type of security.

## **Item 9 – Disciplinary Information**

Neither HoldCo nor any person employed by HoldCo have any legal or disciplinary events to disclose.



## **Item 10 – Other Financial Industry Activities and Affiliations**

- A.** Neither HoldCo nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or as an associated person of the foregoing entities.
- B.** See response to Item 10.A above.
- C.** HoldCo's affiliates serve as general partners to the Funds. HoldCo and its affiliates will devote as much time to the activities of each of the Funds as they deem necessary and appropriate. Subject to certain restrictions in the Funds' offering documents, HoldCo is not prohibited from forming additional investment funds, from entering into other investment advisory relationships or from engaging in other business activities. If HoldCo or any of its affiliates decides to engage in such activities in the future, HoldCo or its respective affiliates, as applicable, will undertake to engage in such activities in a manner that is consistent with such party's contractual and fiduciary duties to the existing Funds. Nevertheless, these activities could be viewed as creating a conflict of interest in that the time and effort of the members and partners of HoldCo and its officers and employees will not be devoted exclusively to the business of the existing Funds but will be allocated between the business of the existing Funds and the management of any new clients.
- D.** HoldCo does not recommend other investment advisers for its Funds and consequently does not receive compensation for recommending or selecting other investment advisers for its Funds.

## **Item 11 – Code of Ethics**

- A.** HoldCo has adopted a Code of Ethics for all HoldCo's supervised persons describing its high standard of business conduct, and fiduciary duty to its Funds. Among other things, the Code of Ethics requires that HoldCo's employees as well as Vik Ghei and Misha Zaitzeff act in the best interests of the Funds to the exclusion of contrary interests, act in good faith and in an ethical manner, avoid conflicts of interest with the Funds to the extent reasonably possible, and identify and manage conflicts of interest to the extent that they arise. All supervised persons at HoldCo, including Vik Ghei and Misha Zaitzeff, must acknowledge the terms of the Code of Ethics annually and when it is amended.

In addition, the Code of Ethics sets forth formal policies and procedures with respect to the personal securities trading activities of HoldCo's employees as well as Vik Ghei and Misha Zaitzeff. The Code of Ethics imposes certain restrictions on employee personal securities trading and requires that employees report all securities transactions on not less than a quarterly basis and provide a summary of securities holdings on at least an annual basis. The Code of Ethics also addresses outside activities of employees, conflicts of interest, policies and procedures concerning the prevention of insider trading, including restrictions on the acceptance of significant gifts and business entertainment items and limitations on political contributions.

Clients or prospective clients may request a copy of HoldCo's Code of Ethics by contacting James McKee, HoldCo's Chief Compliance Officer, at [james@holdcoam.com](mailto:james@holdcoam.com).

- B.** It is HoldCo's policy that it will not effect any principal or agency cross securities transactions for Client accounts. HoldCo will also not cross trades between Client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated private fund and another Client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the Client and for another person on

the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

C. To address potential conflicts of interest relating to Client securities holdings, the Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of HoldCo's employees will not interfere with (i) making decisions in the best interest of the Funds and (ii) implementing such decisions. Employees, as well as Vik Ghei and Misha Zaitzeff, are prohibited from purchasing all "Reportable Securities" (as defined in the Code of Ethics) except for exchange traded funds, without a documented exception from the Chief Compliance Officer and pre-clearance to trade. Such "Reportable Securities" include, but are not limited to, single name stocks, bonds and notes.

Employees, as well as Vik Ghei and Misha Zaitzeff, are permitted to trade, without pre-clearance from the Chief Compliance Officer, in certain exempt securities such as mutual funds, exchange traded funds, and U.S. government securities. Any other trades, including the sale of Reportable Securities held by an employee prior to his/her employment with HoldCo, require pre-clearance from the Chief Compliance Officer. Employee personal trading is continually monitored under the Code of Ethics to identify and minimize conflicts of interest between HoldCo and its Clients.

D. See response to Item 11.C above.

## Item 12 – Brokerage Practices

A. HoldCo is authorized to determine the broker or dealer to be used for each securities transaction for the Funds. However, in determining the reasonableness of commissions and in selecting brokers and dealers to effect portfolio transactions for the Funds, HoldCo seeks to obtain best execution by considering such factors as the ability of the brokers or dealers to effect the transactions, their facilities, reliability and financial responsibility, and the costs of brokerage or research products or services which HoldCo considers to be of benefit to its Clients.

HoldCo does not participate in any soft dollar arrangements where it receives "credits" for executing transactions in order to pay for third-party services. However, HoldCo does receive research from certain of its executing brokers and the Funds' offering documents permit HoldCo to utilize "soft dollars" on behalf of the Funds if such arrangements fall within the "safe harbor" under Section 28(e) of the Securities Exchange Act of 1934, as amended.

Client referrals are not considered in selecting or recommending broker-dealers.

HoldCo does not engage in directed brokerage arrangements.

B. As noted, HoldCo manages investments on behalf of a number of Funds. The Funds have investment programs that are similar or overlap and may, therefore, under certain circumstances discussed below, participate with one another in investments.

**Aggregation.** HoldCo aggregates trades pursuant to the following guidelines and policies (although each of the following may not apply to all aggregated trades):

- if HoldCo believes such aggregation is consistent with its duty to seek best execution (which shall include best price) for its Clients and is consistent with the terms of HoldCo's investment advisory agreements;
- if HoldCo believes that aggregations would cause the Client's costs of execution to be decreased;
- if no Client would be impermissibly favored over any other Client that participates in the aggregated orders and all participating Clients would participate at the average price acquired for all transactions on a given business day;

- if allocations are made pursuant to HoldCo's allocation policies;
- HoldCo's books and records will separately reflect, for the Clients whose orders are aggregated, the securities held by and bought and sold for each Client;
- Funds of the participating Clients whose orders are aggregated will be deposited with one or more banks or broker/dealers, and any cash attributable to the accounts will not be held collectively for the respective owners any longer than is commercially necessary to settle the purchase or sale in question on a delivery versus payment basis;
- HoldCo will receive no additional compensation or remuneration of any kind as a result of the proposed aggregation procedure; and
- individual investment advice and treatment will be accorded to each Client.

**Allocation.** HoldCo will, in certain circumstances, allocate orders among different Clients. The governing documents for each Fund discuss the means and method for allocating investments across the Funds, and HoldCo will comply with the terms set forth in such documents.

HoldCo will retain records of each trade (specifying each participating account) and its allocation. Any exceptions to HoldCo's allocation policy will be explained in writing, and HoldCo will maintain a record of any such exceptions.

### **Item 13 – Review of Accounts**

**A.** HoldCo is responsible for reviewing and analyzing existing Fund positions and other opportunities on an ongoing basis in connection with their investment decision-making process and to ensure that the Funds' investments are consistent with each Fund's objectives. HoldCo's Valuation Committee (consisting of Vik Ghei, Misha Zaitzeff, the Chief Financial Officer and the Chief Compliance Officer) oversees and evaluates ongoing valuations of the Funds' investments on a monthly, quarterly and annual basis. HoldCo generally provides investors monthly, quarterly and annual reports.

**B.** More frequent reviews may be triggered by material changes in variables such as a Fund's individual circumstances, or the market, political or economic environment.

**C.** Investors in the Funds managed by HoldCo receive monthly reports, quarterly unaudited financial statements and annual audited financial statements from such Funds' administrators.<sup>1</sup>

### **Item 14 – Client Referrals and Other Compensation**

**A.** No one other than HoldCo's Clients provide an economic benefit to HoldCo for providing investment advice or other advisory services to the Clients.

**B.** HoldCo has entered, and may again in the future enter, into agreements with placement agents and/or third party solicitors in connection with the solicitation of investors in the Funds and such agreements may provide for payment to the relevant party of a portion of the subscription amount by investors or ongoing payments to the relevant party based upon a percentage of the management fee or incentive compensation attributable to the investments introduced by such placement agent. At present, only HoldCo Opportunities Fund, L.P. and HoldCo Opportunities Fund II, L.P. have entered into arrangements with placement agents.

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<sup>1</sup> HoldCo Co-Investment Fund II, L.P. and HH HoldCo Co-Investment Fund II, L.P. are self-administered.

Unless otherwise expressly disclosed to an investor, any fees paid to placement agents and/or solicitors that are paid by a Fund will offset the Management Fee or Performance Compensation otherwise payable or allocated to HoldCo.

### **Item 15 – Custody**

HoldCo is generally deemed to have constructive custody of the Funds' assets because HoldCo or a HoldCo affiliate serves as general partner or manager of each Fund. However, HoldCo is not required to comply (or is deemed to have complied) with certain requirements under Rule 206(4)-2 under the Advisers Act (the "Custody Rule") with respect to each Fund because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception."

This exemption, among other things, requires that (i) each Fund will be subject to an audit, conducted in accordance with generally accepted accounting principles, at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and, (ii) each Fund's audited financial statements are delivered to investors within 120 days of each Fund's fiscal year end.

Further, HoldCo is required to maintain the funds and securities (except for securities that meet the privately offered securities exemption in the Custody Rule) over which it has custody with a "qualified custodian." Qualified custodians include banks, brokers, futures commission merchants and certain foreign financial institutions. A qualified custodian has been obtained for each Fund for which capital has been called and will be obtained for all other Funds prior to capital being called.

### **Item 16 – Investment Discretion**

As noted in Item 4 – Advisory Business, HoldCo Opportunities Fund, L.P., HoldCo Opportunities Fund II, L.P., and HoldCo Opportunities Fund III, L.P. are managed on a fully discretionary basis. HH HoldCo Co-Investment Fund, L.P., HoldCo Co-Investment Fund II, L.P., and HH HoldCo Co-Investment Fund II, L.P., are not managed on a fully discretionary basis (*i.e.* new investments require the consent of limited partners but post-investment oversight and sale decisions do not). HoldCo makes all investment decisions in accordance with its investment management agreements with each Fund and the investment objectives and strategies set forth in each Fund's investment management agreements, governing documents, and offering materials.

### **Item 17 – Voting Client Securities**

**A.** From time to time, HoldCo votes securities held by its Funds on various matters, including proxy proposals, amendments, consents or resolutions (collectively, "proxies"). HoldCo votes proxies in a manner that best serves the interests of the Funds, as determined on a case-by-case basis. HoldCo has appointed a proxy voting committee to oversee its voting of proxies on behalf of the Funds and to review potential conflicts of interest that may influence its voting. Upon receipt of a proxy from a Fund's custodian or directly if a Fund is the record holder of a security, a member of HoldCo's investment team will review each proxy to determine how, or if, to vote the proxy, and the CCO will review the proxy to determine if it presents a conflict of interest. In determining how to vote, HoldCo will consider the best interests of the applicable Fund.

HoldCo's proxy voting policy is designed to determine if a conflict of interest exists and to ensure that if a material conflict of interest is identified, that the proxy vote is not improperly influenced by the conflict. Conflicts may arise from time to time in relation to proxy voting requirements, and HoldCo may vote proxies notwithstanding the existence of the conflict. HoldCo monitors all proxies for any potential conflicts of interest. If a material conflict of interest arises, the proxy voting committee will determine how to address the conflict.

Records are maintained of all proxy votes. Clients should contact HoldCo's Chief Compliance Officer, James McKee, at [james@holdcoam.com](mailto:james@holdcoam.com) for a copy of the proxy voting policy or for information with respect to a specific proxy vote.

**B.** As noted above, HoldCo has authority to vote on behalf of its Funds.

#### **Item 18 – Financial Information**

**A.** HoldCo does not require or solicit prepayment of more than \$1,200 in fees per Client six months in advance. Accordingly, HoldCo is not required to include a balance sheet for its most recent fiscal year.

**B.** HoldCo is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to its Clients.

**C.** HoldCo has not been the subject of a bankruptcy petition at any time during the past ten years.