

# Breakwater Management LP



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This brochure provides information about the qualifications and business practices of Breakwater Management LP (along with its predecessors and affiliates, "Breakwater" or the "Firm"). If you have any questions about the contents of this brochure, please contact us at (424) 777-4000. 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. Registration as an investment adviser with the SEC does not imply a certain level of skill or training of Breakwater or its personnel.

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

**Item 2. Material Changes**

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This brochure dated March 22, 2021, has been prepared by Breakwater as an amendment to the prior version of its brochure, dated March 4, 2020 (“Prior Version”).

There have been no material changes since the Prior Version.

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

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Breakwater is a California limited partnership originally organized in January 2007. Breakwater is principally owned by Eric Beckman and Saif Mansour, who have an aggregate of 42 years of experience investing across capital structures, industries, and cycles.

Breakwater provides discretionary investment management services to private investment vehicles that are typically structured as limited partnerships (each a “Fund”, and collectively the “Funds”). Breakwater may also form special purpose vehicles (“SPVs”) for certain investments which will generally pursue a similar investment strategy as the Funds. Unless clearly specified otherwise, the Funds and SPVs are collectively referred to herein as the “Clients.” Breakwater’s primary investment strategy focuses on direct loans and equity investments in growing lower middle market growth companies with strong competitive positions, high margins and high free cash flow, with an expected emphasis in business services, branded consumer, food & beverage, healthcare/health & wellness, media & entertainment, software/information services, specialty manufacturing & distribution, and specialty retail/restaurants.

Investment advice is provided directly to each Client itself and not to the individual investors in the Funds or SPVs. Breakwater tailors its advisory services to the individual needs of each particular Client but not to the individual needs of the underlying investors. Breakwater manages the Clients in accordance with the investment objectives and limitations set forth in each Client’s offering memoranda, governing documents, subscription agreements and any investment management agreement between Breakwater and each Client (together, “Operative Documents”).

Breakwater has, and may in the future, enter into agreements, commonly known as “side letters,” with certain investors under which Breakwater waives or modifies the application of certain investment terms applicable to such investors, without obtaining the consent of any other investor in the Funds or SPVs (other than an investor whose rights would be materially and adversely affected by the waiver or modification).

Breakwater does not participate in wrap fee programs.

As of December 31, 2020, Breakwater managed approximately \$210,000,000 of regulatory assets on a discretionary basis.

#### **Item 5. Fees and Compensation**

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Breakwater’s fees and compensation arrangements vary depending on the particular Client. The specific terms of such arrangements are set forth in each Client’s Operative Documents.

##### **Funds**

The Funds will pay Breakwater a management fee (the “Management Fee”) equal to 2.0% per annum for Breakwater Credit Opportunities Fund LP (“BCOF I”) and Sidecar or 1.5% per annum for Breakwater Credit Opportunities Fund II LP (“BCOF II”) of such Funds’ cost basis of invested capital, not to exceed aggregate costs. The Management Fee will be paid to Breakwater quarterly based on the cost basis as of the end of the prior quarter.

A Fund will pay, or reimburse Breakwater, for the organization and startup expenses of each Fund, the general partner entity, and the offering of interests in the respective Fund, including legal, accounting,

filing, travel-related expenses and placement agent expenses, and other fees and expenses (“Organizational Expenses”). Organizational Expenses incurred in connection with the completed fundraising for BCOF II that were in excess of \$1,000,000 would have been paid by that Fund, and any placement fees paid by any Fund, will be ultimately borne by Breakwater through offsetting reductions to the Management Fee.

In addition to the Management Fee and Organizational Expenses, the Operative Documents for each Fund set forth the other fees, costs and other expenses incurred by or otherwise related to the Funds to the extent not reimbursed by third-parties that may be borne by the Funds, which may include, without limitation, in connection with: (i) acquiring, holding and disposing of investments (including transactions that are not consummated); (ii) legal, consulting, investment banking, commercial banking, borrowing, custodial, auditing, accounting and other professional service fees and expenses; (iii) the preparation of financial statements, tax returns and other filings and Schedule K-1s of the Funds and the general partner; (iv) any actual or threatened litigation, investigation, audit or other proceeding involving the Fund, the general partner, Breakwater, the principals or their respective affiliates (and their respective officers, directors and employees) related to activities of the Funds; (v) any taxes assessed against the Funds; (vi) the Funds’ legal and regulatory compliance (but excluding any compliance or related expenses assumed by Breakwater related to its registration as an investment adviser with the Securities and Exchange Commission); (vii) insurance premiums on behalf of the Funds, the general partner, Breakwater and their respective affiliates (and their respective officers, directors and employees) and premiums for any “key man” insurance; (viii) indemnification under the partnership agreement; (ix) the managed distribution of marketable securities; (xii) the liquidation and winding up of the Fund; (xiii) annual or other meetings of the partners and the advisory committee, whether individually or as a group; and (xiv) all other ordinary operating expenses and non-recurring or extraordinary expenses attributable to the activities and operations of the Funds, including travel-related expenses (e.g., travel, accommodations, meals and entertainment).

### **SPVs**

The SPVs may pay Breakwater a Management Fee roughly equal to 2.0% per annum for the SPV’s net asset value of investments. However, the Management Fee paid by each SPV may vary and is determined on a case-by-case basis.

In addition, certain SPVs will pay, or reimburse Breakwater, for audit and tax related expenses, filing fees and tax preparation.

Please refer to the Clients’ Operative Documents for further information regarding the fees and expenses of Breakwater and each respective Fund and SPV.

Neither Breakwater nor any of its supervised persons accepts direct compensation for the sale of securities or other investment products.

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

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### **Funds**

When certain performance hurdles are met, the general partner of such Fund may be entitled to receive a distribution of the investment proceeds as performance-based incentive compensation (any such compensation is referred to in this brochure as the “Carried Interest”). The payment of the Carried Interest to the general partner may be subject to certain conditions being satisfied such as the payment

to Fund investors of a predetermined rate of return on their invested capital, and once such condition has been satisfied, there may be a payment to the general partner or manager of a “catch-up” distribution as described in the Operative Documents for each Fund. Certain Funds have established a distribution waterfall describing the distribution priority which subjects certain general partner distributions to a clawback. For more information regarding the specific terms of the Carried Interest, please consult each of the Operative Documents for the Funds.

### **SPVs**

Similar to the Funds, when certain performance hurdles are met for the SPVs, the general partner of such SPV may be entitled to receive a distribution of the investment proceeds as performance-based incentive compensation in the form of a “Promote Fee.” The payment of the Promote Fee to the general partner will be subject to certain conditions being satisfied such as the predetermined rate of return on their invested capital, and once such conditions have been satisfied, there may be a payment to Breakwater of a “catch-up” distribution, as described in the Operative Documents for each SPV. The SPVs have established a distribution waterfall describing the distribution priority. For more information regarding the specific terms of the Promote Fee, please consult each of the Operative Documents for the SPVs.

The Carried Interest and Promote Fee are structured subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3 of the Advisers Act. Accordingly, Breakwater seeks to ensure that investors in a Fund or SPV that are directly or indirectly assessed a Carried Interest or Promote Fee satisfy the qualifications of Rule 205-3, and have been advised of the terms of such performance-based fees and the associated risks.

Instances may arise where the interests of the Firm, its employees and/or principals, conflict with the interests of the Funds and their investors. For example, the existence of the general partners’ Carried Interests create an incentive for the Firm to make more speculative investments on behalf of the Funds than it would otherwise make in the absence of such performance-based arrangements. However, the Firm is committed to acting at all times in the best interest of the Funds.

## **Item 7. Types of Clients**

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Breakwater provides discretionary investment advice to the Funds and SPVs. The Clients’ investors are limited to individuals and entities that meet certain suitability criteria including “accredited investors”, “qualified clients” and “qualified purchasers”. The Clients are marketed to certain investors including, without limitation, high-net worth individuals, institutional investors and private limited liability corporations.

An investment in one or more Clients should be based on a prospective investor’s careful analysis of its overall portfolio and its own objectives and needs in the areas of diversification, liquidity, return on investment and risk management.

Each Client imposes minimum investor qualification standards and minimum investment requirements. Investors in the Clients should review the respective Client’s Operative Documents for additional information regarding suitability and the subscription process.

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

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As more fully described in each Client's offering documents, Breakwater specializes in direct investments in promising lower middle market companies in the United States. Breakwater's investments will primarily consist of directly originated senior secured loans, generally combined with an equity investment. This strategy provides opportunities for both current contractual income and long-term capital gains.

Breakwater focuses on lower middle market businesses while employing a flexible investment mandate that includes financings for both owner-operated and sponsor-backed companies. The lower middle market, defined as companies with \$10 million to \$100 million of revenue, represents the largest segment of the middle market in terms of number of companies and, Breakwater believes, the greatest opportunity for growth and return. In evaluating potential opportunities for the Clients, Breakwater conducts extensive due diligence, employs a value-oriented approach, assesses each investment on a risk-adjusted basis, places significant emphasis on downside analysis, and implements its proactive, integrated asset management approach.

There are significant risks inherent in this investment strategy. An investment in the Clients is highly speculative and involves certain risks, potential conflicts of interest and tax considerations that prospective investors should consider before subscribing and, therefore, should be undertaken only by investors capable of evaluating the risks of the Clients and bearing the risks that it represents. There can be no assurance that a Client will be able to implement its stated investment strategy or achieve its investment objective, or that investors will receive a return on their capital. Set forth below is a summary of some of the investment risks disclosed in greater detail in each of the Clients' offering documents. Please refer to each of the Clients' Operative Documents for more information on these and other risks relating to Breakwater's business and investments in the Clients.

### ***Risks Related to the Business***

***Reliance on Key Personnel of the Investment Manager.*** In order for the Clients' to achieve their investment objectives, they will be highly dependent upon the skills of Breakwater in analyzing, acquiring, originating and managing the Clients' assets. As a result, the Clients are highly dependent on the experience and expertise of certain individuals associated with Breakwater, any of whom may cease to be associated with Breakwater at any point during the term of the Clients. None of these individuals has an employment contract with Breakwater and they may leave or have their employment terminated at any time with or without cause. The loss of one or more of these individuals could have a material adverse effect on the ability of the Clients to achieve their investment objectives. In addition, individuals not currently associated with Breakwater may become associated with Breakwater and the performance of the Clients may also depend on the experience and expertise of such individuals.

***Changes in Regulation and Enforcement; Litigation.*** Legal and regulatory changes could occur which may adversely affect the Clients. The effect of regulatory change on the Clients, while impossible to predict, could be substantial and adverse. Market disruptions and the dramatic increase in the capital allocated to alternative asset management funds during recent years have led to increased governmental as well as self-regulatory scrutiny of investment funds and the financial industry in general. The European Union and the U.S. Congress have passed into law sweeping financial regulatory reform legislation as a direct response to this scrutiny. Such oversight and regulation may cause the Clients to incur additional expense, may divert the attention of the general partner and Breakwater's senior management and may result in

finances or other regulatory action if the Clients are deemed to have violated any regulations. It is currently very difficult to predict what, if any changes, in the regulations applicable to the Clients may be instituted in the future that might impact the general partner, Breakwater and/or any of their advisers and/or managers or the markets in which they trade and invest, or the counterparties with which they do business. Any such regulations could have a material adverse impact on the ability of the Clients to operate in the ordinary course and on the profit potential of the Clients, as well as require increased transparency as to the identity of its investors.

***Insufficient Asset Coverage/Unsecured Investments.*** In connection with their direct lending activity, the Clients primarily invest in first lien, senior secured loans based upon borrower cash flows and enterprise value. While certain loans may be secured by collateral in the form of current and long-term assets, collateral coverage is not a primary focus of the Clients' lending strategy, and, when available, these assets may be insufficient to collateralize the Clients' loan investments. In addition, the Clients may have the ability to make junior capital investments that are unsecured. As a consequence, these investments would not have any secured interest in the assets of such companies and as such will generally have far greater credit, insolvency and liquidity risk than is typically associated with secured obligations. The holders of obligations secured by liens will generally control the liquidation of, and be entitled to receive proceeds from, any realization of such collateral to repay their obligations in full before the Clients. In addition, the value of such collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from sales of such collateral would be sufficient to satisfy the Clients' secured or unsecured obligations. If such proceeds were not sufficient to repay the obligor's outstanding secured loan obligations, then the Clients' unsecured claims would rank equally with the unpaid portion of such secured creditors' claims against the borrower's remaining assets, if any.

***Illiquidity of Assets.*** The Clients' assets will generally have no trading market. The Clients' investments in illiquid assets will restrict its ability to dispose of investments in a timely fashion or for a fair price. Illiquid assets may trade at a discount from comparable, more liquid assets. The secondary market for lower middle market loans is smaller and less liquid than the market for broadly-syndicated loans made to larger obligors. In addition, the Clients have the ability to invest in assets that may not be freely transferable under the laws of the applicable jurisdiction or due to contractual restrictions. The prices realized from the sale of any of the Clients' assets could be less than the cost of such assets to the Client or less than what may be considered the fair value of such assets.

***Economic Downturns and Recessions.*** Many of the portfolio companies in which the Clients invest are susceptible to economic recessions and may be unable to repay the Clients' loans during such periods. Therefore, the Clients' non-performing assets are likely to increase, and the value of the Clients' portfolios are likely to decrease during such periods. Adverse economic conditions can also decrease the value of collateral securing some of the Clients' loans and the value of its equity investments. Economic slowdowns or recessions could lead to financial losses in the Clients' portfolios and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase the Clients' funding costs, limit its access to the capital markets or result in a decision by lenders not to extend credit to the Clients.

***Cybersecurity.*** Breakwater, the Clients' service providers, and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the Clients and/or investors, despite the efforts of Breakwater and service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems,

software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the Clients and their investors. For example, unauthorized third parties may attempt to improperly access, modify, disrupt the operations of, or prevent access to these systems of Breakwater, the Client's service providers, counterparties or data within these systems. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of Breakwater's systems to disclose sensitive information in order to gain access to Breakwater's data or that of the members. A successful penetration or circumvention of the security of Breakwater's systems could result in the loss or theft of an investor's data or funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such incidents could cause the Client, Breakwater or their service providers to incur regulatory penalties, reputational damage, additional compliance costs or financial loss. Similar types of operational and technology risks are also present for portfolio companies, which could have material adverse consequences for such portfolio companies, and may cause the Client's investments to lose value.

***Force Majeure Risk.*** Force majeure is the term generally used to refer to an event beyond the control of the party claiming that the event has occurred, including acts of God, pandemics, fire, flood, weather, earthquakes, war, terrorism, and labor strikes. Some force majeure events may adversely affect a party's ability to perform its obligations, under a contract or otherwise, at least until it is able to remedy the force majeure event. In addition, the cost of repairing or replacing damaged assets could be considerable and may be either uninsurable or insurable at such high rates that to maintain such coverage would cause an adverse impact on the related investments. Repeated or prolonged service interruptions may result in permanent loss of customers, substantial litigation, or penalties for regulatory or contractual non-compliance. Force majeure events that are incapable of, or costly to, cure may also have a permanent adverse effect on client accounts and/or its investments and, potentially, the surrounding community, and may result in losses far in excess of available insurance coverage.

In particular, the recent spread of COVID-19 could negatively impact the financial results of the Firm and the Firm's investments due to, among other things, (a) disruptions to business operations resulting from reduced consumer spending, travel restrictions, shelter-in-place orders from federal, state, local and foreign governments, and quarantines of employees, customers and suppliers in areas affected by the outbreak, (b) closures of manufacturing facilities, warehouses and logistics supply chains and (c) uncertainty about the duration of the virus' impact on financial markets. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, as well as the scale of such impacts, are increasingly uncertain and difficult to assess.

#### **Item 9. Disciplinary Information**

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There have been no legal or disciplinary events to disclose that are material to an investor's or prospective investor's evaluation of Breakwater's advisory business or integrity of management.

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

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Neither Breakwater nor its affiliates are registered, nor have an application pending to register as a broker-dealer. Further, neither Breakwater nor its affiliates are registered, nor have an application

pending to register as a futures commission merchant, commodity pool operator, a commonly trading adviser, or an associated person of the forgoing entities.

Breakwater Investment Management, LLC is an affiliate of the Firm and serves as the general partner of Breakwater Credit Opportunities Fund LP, BCOF Sidecar 2015, LP, Breakwater Credit Opportunities Fund Cayman LTD and certain SPVs.

Breakwater Credit Opportunities Fund II GP, LP is an affiliate of the Firm and serves as the general partner of Breakwater Credit Opportunities Fund II LP and Breakwater Credit Opportunities Fund II (Feeder) LP.

Breakwater and its affiliates will devote such time as shall be necessary to conduct the business affairs of the Clients in an appropriate manner. However, Breakwater or its principals may organize or become involved in other business ventures in the future as well, and may have incentives to favor certain of these ventures over the Clients. The Clients will not share in the risks or rewards of such other ventures, and such other ventures might compete for the general partner's, Breakwater's and their principals' time and attention and create other conflicts or potential conflicts of interest. Neither Breakwater nor any of Breakwater's professionals are required to devote their entire time and attention to the affairs of any one of the Clients but are expected to commit a substantial portion of their time and attention to the Clients.

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

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Pursuant to Rule 204A-1 of the Advisers Act, Breakwater adopted a Code of Ethics (referred to in this brochure as the "Code") to ensure that Breakwater fulfills its role as a fiduciary to the Clients. The interests of the Clients must always be recognized, respected, and have precedence over Breakwater employees. The Code requires that Breakwater employees and certain associated persons act in the best interests of the Clients to the exclusion of contrary interests, act in good faith and in an ethical manner, avoid conflicts of interest with the Clients to the extent reasonably possible, and identify and manage conflicts of interest to the extent they arise. Breakwater employees are also required to comply with applicable provisions of federal securities laws and make prompt reports of any actual or suspected violations of such laws by Breakwater or its employees. In addition, the Code sets forth formal policies and procedures with respect to the personal securities trading activities of Breakwater's personnel. The Code requires that personnel pre-clear certain transactions, report personal securities transactions in accordance with the Code on at least a quarterly basis and submit reports to Breakwater regarding personal accounts and reportable securities holdings at least annually. The Code also (i) addresses outside activities of employees, conflicts of interest, and policies and procedures concerning the prevention of insider trading, (ii) includes restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and (iii) addresses the pre-clearance and reporting of political contributions. Employees are required to provide a written certification to Breakwater agreeing to comply with the Code. Copies of this Code may be requested by contacting Breakwater's Chief Compliance Officer at (424) 777-4000.

Neither Breakwater, nor any of its related persons, recommend that any Client acquire or sell securities in which Breakwater or any related person has a material financial interest.

As a matter of general practice, neither Breakwater, nor any of its related persons, acquire or sell securities that are also recommended to the Clients.

**Allocation of Investment Opportunities and Other Accounts.** From time to time, investment opportunities may arise that are appropriate for an investment by more than one Client or for which one or more Clients should have priority based on the governing documents of the Clients. The Operative Documents for the Clients and Breakwater's policies generally set forth the allocation guidelines to apply if and to the extent an opportunity is appropriate for more than one Client at a particular point in time. Such documents generally provide Breakwater with the discretion to allocate among Clients on a fair and equitable basis.

**Directors and Officers.** Certain employees of Breakwater serve as directors or officers of entities through which investments by the Clients are held.

**Co-Investment Opportunities.** Breakwater may, but is not required to, offer (or permit the offering of) investment opportunities, including co-investment opportunities through SPVs, in certain Fund investments to existing investors or third parties. In certain cases, when an SPV is formed, such entity will bear expenses related to its formation and operation, many of which are similar in nature to those borne by the other Funds. To the extent Breakwater or the general partners receive any compensation or fees as a result of such co-investment arrangement, such fees are neither payable to the Funds nor credited against future management fees.

## **Item 12. Brokerage Practices**

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Breakwater has discretion regarding the types of investments to be made by the Clients, subject to each of the Clients' investment strategies and purpose as set forth in the Operative Documents of each of the Clients. Breakwater generally does not make recommendations for investments by the Clients in public securities as most investments are in privately negotiated private company transactions. Accordingly, Breakwater does not frequently select or recommend broker-dealers for client transactions. In the event that a broker-dealer is selected or recommended, Breakwater employs a due diligence process to ensure that any such transaction is executed in the best interest of the Clients, taking into account certain factors such as a broker's execution capability and trading expertise, in addition to pricing.

- Breakwater does not have any soft dollar arrangements.
- Breakwater does not consider whether Breakwater or a related person of Breakwater receives Client or investor referrals from a broker-dealer or third party because Breakwater does not typically select or recommend broker-dealers.
- Breakwater does not have directed brokerage dealings.

Generally, aggregation of the purchase or sale of securities for various Client accounts does not apply to Breakwater as Breakwater primarily invests in private company financings.

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

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Breakwater's investment professionals continually review and monitor the Clients' investments. Breakwater's investment professionals routinely meet to discuss investment management activities as well as potential new investment opportunities. Breakwater's investment committee convenes as and when necessary to consider and approve new investment opportunities and material investment decisions regarding the Clients' existing investments, including dispositions and refinancings.

More frequent reviews may be triggered by material changes in key variables that could affect the performance of the portfolios or the investments within them, including changes in the financial markets and activity and trends in the political or economic environment.

Within 120 days after each Client's fiscal year-end and in accordance with each Client's Operative Documents, audited financial statements are prepared by an independent accountant pursuant to U.S. Generally Accepted Accounting Principles ("GAAP") and are distributed to each investor in the Clients (see Item 15). The Firm also seeks to provide unaudited performance information for the Funds to investors on a quarterly basis and the SPVs on a case by case basis. Breakwater may distribute certain other reports to the Clients' investors upon specific requests from time to time.

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**Item 14. Client Referrals and Other Compensation**

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Breakwater does not receive economic benefit from someone who is not a client for providing investments advice or other advisory services to Breakwater's clients.

Neither Breakwater nor any of its related persons compensate any person who is not a supervised person for Client referrals.

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**Item 15. Custody**

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While the Firm or certain affiliates may be deemed to have custody of certain client funds and securities, the Firm itself does not maintain physical custody of such assets. As set forth in Rule 206(4)-2 under the Advisers Act (the "Custody Rule"), all client funds that fall under the purview of the Custody Rule are held at accounts maintained in the name of the applicable client by entities deemed qualified custodians as defined in the Custody Rule. Additionally, Breakwater delivers audited financial statements of the Clients to all investors in such Clients within 120 days of each Client's fiscal year end. The financial statements are prepared in accordance with GAAP and are audited by an independent accountant.

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**Item 16. Investment Discretion**

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Breakwater exclusively manages the business of the Clients and has discretionary investment authority to manage the making of new investments by the Clients and the management of the existing investments held by the Clients. Generally, this authority is provided for in each Client's Operative Documents. In addition, investors in the Clients must execute a subscription agreement in which they make various representations, including representations regarding their suitability to invest in a high-risk investment pool.

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**Item 17. Voting Client Securities**

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Breakwater's investment strategy does not generally involve the acquisition of public securities with voting authority, making it unlikely that a Client will be placed in a position of proxy voting authority. However, if a Client does come into possession of securities with voting rights, the Firm will implement the appropriate policies and procedures and seek to vote proxies in the best interests of its clients.

**Item 18. Financial Information**

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Breakwater is not aware of any financial conditions that would be reasonably likely to impair Breakwater's ability to meet contractual commitments to the Clients.