

**Item 1 - Cover Page**

**Castlelake, L.P.**

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

March 31, 2022

This brochure provides information about the qualifications and business practices of Castlelake, L.P. which does business under the name “Castlelake”. If you have any questions about the contents of this brochure, please contact us at (612) 851-3000. 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 Castlelake is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Castlelake is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of Castlelake provide you with information about which you determine to hire or retain Castlelake.

## **Item 2 - Material Changes**

Since Castlelake's last annual updating amendment to Part 2A dated December 13, 2021 Castlelake has made general modifications to descriptive information contained herein, including the description of the business practices of Castlelake and its affiliates under "Material Risks" and "Investment Risks" and supplements existing disclosures relating to potential conflicts of interest under "Conflicts of Interest."

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Our Brochure may also be requested by contacting Daniel McNally, Castlelake's General Counsel, at (612) 851-3079, or Maria Romolo, Castlelake's Chief Compliance Officer, at (917) 229-5329.

Additional information about Castlelake is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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#### **Item 4 - Advisory Business**

Castlelake, L.P., which does business under the name “Castlelake” (“Castlelake”) was established in 2005 and serves primarily as: (1) the investment adviser to private investment funds, separately managed accounts and co-investment funds or other similar types of entities (“Fund” or “Funds”) that focus primarily on investments in aviation, real assets and specialty finance; and (2) the servicer of securitization trusts and other financing structures (the “Vehicles”) for which Castlelake manages asset-backed loans, aircraft and other asset-based leases, finance leases, unsecured loans, as well as maintenance and disposition proceeds relating thereto (collectively, the “Accounts”).

Castlelake’s advisory services to the Accounts are detailed in the applicable private placement memorandum, confidential information memorandum or other offering memorandum and materials (each, a “Memorandum”), investment management agreements, servicing, facility management and similar type agreements, trust and similar agreements, limited partnership, limited liability company or other similar operating agreements (each, a “Partnership Agreement”) (each such Memorandum and Partnership Agreement collectively referred to herein as an “Offering Document”) and are further described below under “Methods of Analysis, Investment Strategies and Risk of Loss.” Castlelake or its related entities also has entered into side letter agreements (“Side Letters”) with certain investors in the Funds, establishing rights under, or supplementing or alternating the terms (including economic or other terms) of, the applicable Offering Documents with respect to such investors.

Additionally, from time-to-time and as permitted by the relevant Offering Documents of each Fund, Castlelake expects to provide (or agree to provide) co-investment opportunities (including the opportunity to participate in co-invest vehicles) to certain investors or other persons, including other sponsors, market participants, finders, consultants and other service providers, Castlelake’s personnel and/or certain other persons associated with Castlelake and/or its affiliates. Such co-investments typically involve investment and disposal of interests in the applicable portfolio investment at the same time and on the same terms as the Fund making the investment. However, time-to-time, for strategic and other reasons, a co-investor or co-invest vehicle have in the past purchased, and may in the future purchase, a portion of an investment from one or more Funds after such Funds have consummated their investment (also known as a post-closing sell-down or transfer). As well, for strategic or other reasons, disposal of interests may not be conducted at the same time or on a pro rata basis.

Castlelake is managed by Rory O’Neill, Evan Carruthers, Rich Barnett, Luke Beltnick, Philipp Braschel, Christopher Buckley, Eduardo D’Alessandro, Brad Farrell, Alan Gearing, Peter Glerum, Yen-Wah Lam, Matt Little, John Lundquist, Joe McConnell, Daniel McNally, Gina Lee Peyton, Armin Rothauser, Isaiah Toback and Otto Verhoeff (collectively, the “Principals”).

Detailed information about the Accounts are located in their respective Offering Documents. Castlelake invests called capital (and in certain of the Funds, recycled proceeds) in the Funds during their respective commitment periods, and as otherwise permitted in the Offering Documents, in portfolio investments.

All discussions of the Funds in this Brochure, including but not limited to their investments, the strategies used in managing the Funds, the services provided to the Funds, the fees and other costs associated with an investment in the Funds and other terms, are qualified in their entirety by reference to each Fund’s respective Offering Documents. Investment advice is provided directly to the Funds, subject to the discretion and control of the applicable Fund’s general partner and not individually to investors in the

Funds. Each Fund's general partner, managing member or similar serving entity is subject to the Advisers Act pursuant to Castlelake's registration in accordance with SEC guidance. This brochure describes the business practices of the general partners and managing members, which operate as a single advisory business together with Castlelake. References herein to Castlelake should be read to include the general partners and managing members as applicable.

As of December 31, 2021, Castlelake manages approximately \$23.84 billion in assets on a discretionary basis and non-discretionary basis in its Accounts.

## **Item 5 - Fees and Compensation**

### **Management Fees**

In general, Castlelake receives management fees (calculated and payable either monthly or quarterly) as well as certain performance-based and/or asset-based servicing compensation, all of which are described in detail in the respective Offering Documents. While management fees of certain Funds are subject to an offset by all or the specified portion of the servicing fees and compensation and other similar consideration (all net of expenses) relating to the making, disposition or management of Fund investments received by Castlelake or its affiliates, management fees are not offset for servicing and other fees received in the circumstances described in the following paragraph. In certain circumstances, Castlelake management fees may be reduced for certain investors subject to agreed upon terms and conditions of a Fund's Offering Documents and/or Side Letters. In addition, Castlelake expects that co-investors or other parties will negotiate the right to share a portion of certain fees from a particular investment, and the above-described offset will be applied after excluding any amounts paid to such persons.

### **Servicing and Other Fees**

Castlelake or its affiliates receive servicing fees, facility management fees and or similar fees (collectively generally referred to as "servicing fees") through the Accounts or similar securitization vehicles, warehouse facilities, term facilities, trust structures and joint ventures. Castlelake also receives servicing or other fees through co-investments or other structures or loan offerings with respect to assets, investments or debt that is not owned by a Fund, or activities that are not on behalf of a Fund (including, without limitation, providing services to any persons other than a Fund participating in, or providing financing to, the same investment, or with respect to any other activities undertaken by such persons for the benefit of any third parties, or providing services with respect to assets owned by third parties). Servicing fees may be asset-based fees or based on certain performance criteria (as described below).

### **Carried Interest and Performance Fees**

Castlelake will receive carried interest or performance fees or allocations (collectively referred to herein as "carried interest") with respect to certain of the Funds. Carried interest is generally equal to a percentage of net profits, subject to a preferred return or hurdle return, as more fully described in an applicable Fund's Offering Documents. Performance fees are generally equal to a percentage of profits above an agreed upon threshold, as more fully described in an applicable Fund's Offering Documents. Certain Vehicles or similar securitization vehicles or other managed accounts, warehouse facilities, term facilities, trust structures and joint ventures may also pay carried interest to Castlelake.

## Other Information

Castlelake is permitted to exempt investors in the Funds from payment of all or a portion of management fees and/or carried interest. For certain Funds this includes Castlelake, its general partner entities and any other person designated by Castlelake, such as “friends and family” of Castlelake or its personnel, or other investors meeting certain qualification requirements based on commitment size or other strategic or relationship factors. For example, in instances where a Castlelake professional (or an affiliated entity thereof) invests in a Fund, such professional (or such affiliated entity) generally will be exempt from payment of the management fee and carried interest with respect to such Fund. Additionally, to the extent permitted by the relevant Offering Documents, certain general partners or similar parties have the right to permit investors, affiliated with Castlelake or otherwise, to invest in the funds through the relevant general partner or other vehicles that do not bear management fees or carried interest. In general, the management fee offsets described above apply only with respect to the capital commitments of fee-paying investors and do not apply if a Fund ceases to pay management fees at the end of its term. Further, co-investors often pay lower or no management fees and/or carried interest or performance fees. The Funds generally invest on a long-term basis. Accordingly, management and other fees and expenses are expected to be paid, except as otherwise described in the Offering Documents, over the term, or through final liquidation in some cases, of the relevant Fund, and investors generally are not permitted to withdraw or redeem interests in the Funds.

Principals or other current or former employees of Castlelake generally receive salaries and other compensation derived from, and in certain cases including a portion of, management fees, carried interest or other compensation received by Castlelake or its affiliates.

In addition to the fees noted above and subject to the terms and conditions of the relevant Offering Documents, the Accounts will pay for (or shall reimburse Castlelake or its affiliates, as applicable, for its payment of) all expenses relating to the Account that are not reimbursed, including, but not limited to, all of some of the following: organizational expenses (in some instances subject to maximum amounts, but including without limitation travel expenses and other direct costs of personnel of Castlelake, its affiliates or agents and as more fully described in the Offering Documents of the relevant Account), operations and meetings of the investors (including potential investors) in the Accounts, any limited partner advisory committee, Board or similar body, and any other meeting with any investor(s); costs and expenses directly related to the pursuing, discovering, investigating, developing, negotiating, structuring, making, leasing, re-leasing (e.g., conversion and reconfiguration), holding, managing, monitoring, maintaining (e.g., maintenance events and aircraft part purchases) dissolving and disposing of investments (including potential investments that are not consummated, including any non-consummated investment that would have been allocated in part to one or more co-investors irrespective of whether any such co-investor had been identified or selected, or had committed to participate in such investment), including, without limitation, transaction costs, interest and commitment fees on debit balances, borrowings, guarantees or other credit support or permitted hedging activity, clearing and settlement charges, appraisal fees, investment banking expenses, custody fees; third-party fees and profit-sharing arrangements that are not payable to the Castlelake or any of its affiliates (provided such third-party fees and profit-sharing arrangements were not part of the expenses to be borne by Castlelake and were otherwise entered into on an arm’s length basis), fees and expenses of service companies (which may include, and in certain circumstances will include, affiliates of Castlelake), custodians, depositaries (including a depositary and/or custodian appointed pursuant to the AIFMD or any similar law, rule or regulation as implemented in any relevant jurisdiction), Swiss representative and paying agent (pursuant

to the Swiss Collective Investment Schemes Act (as amended) and the implementation thereof), consultants, economists, tax preparers, outside counsel, accountants or other experts and professionals engaged by Castl lake or any limited partner advisory committee, board or similar body; fees for certain personnel to perform jurisdiction-specific administrative functions at one or more registered or administrative offices in a non-U.S. jurisdiction in connection with one or more investments in such jurisdiction; registered office and registered agent fees and expenses; brokerage and commission charges for securities and commodity transactions and other trade-related fees such as stamp and transfer taxes on foreign securities, reasonable travel and lodging expenses of personnel of Castl lake (including, where appropriate, the cost of chartering private aircraft at a cost not in excess of the cost of first class commercial airfare); third-party fees for administrative, accounting, tax preparation, audit, legal and compliance services, including without limitation, costs of compliance programs, regulatory examinations, reporting and filings made by the Accounts or by Castl lake which include any Fund information (e.g., Form PF and filings required under the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder) and fees and/or expenses for any third-party secondee (e.g., legal) of the Fund and/or Castl lake; all costs and expenses associated with reporting and providing information to existing and prospective investors in the Accounts (including in respect of investment-related matters and any other Account-specific reporting, notification or other filing obligations), including through a third-party data portal and otherwise; data production and maintenance services and other third-party research expenses, including specific expenses incurred in obtaining systems, research and other information, including information service subscriptions, utilized for portfolio management, valuations, accounting or reporting purposes, including the costs of pricing services, service contracts for quotation equipment and related hardware and software, phone and internet charges; third-party fees and other expenses related to the organization, operation, administration, accounting, reporting, legal, tax, monitoring, compliance and dissolution expenses of any alternative investment vehicles or parallel investment entity or their respective subsidiaries (provided that Castl lake will endeavor to allocate such expenses to the relevant alternative investment vehicles or parallel investment entity); all costs and expenses associated with environmental, social and corporate governance, including engaging any consultants with respect thereto; the cost of any liability insurance (including, without limitation, cybersecurity insurance, any fiduciary bonds, representation and warranty insurance, directors and officers insurance, and errors and omissions insurance) obtained on behalf of the Fund and/or Castl lake, or any party acting at the request of Castl lake; any withholding, taxes, fees, duties or other governmental charges levied against an Account or any of its investors and all expenses incurred in connection with any tax audit, investigation, settlement or review of an Account (except to the extent that the Account is reimbursed therefor by an investor pursuant to the Offering Document and any costs of or related to the “partnership representative” or similar of an Account; any governmental, regulatory, licensing, filing or registration fees incurred in compliance by the Accounts with the rules of any self-regulatory organization or any federal, state or local laws; ongoing compliance expenses and fees (including in respect of disclosure, reporting and filing) contemplated by, or related to, the AIFMD or any similar non-U.S. law; expenses relating to any governmental inquiry or public relations undertaking relating to the Accounts; reviewing and responding to any “freedom of information,” “open records” or similar requests and any expenses related to protecting the confidential or non-public nature of any information or data (including any costs incurred in connection with the Freedom of Information Act, 5 U.S.C. § 552 and any U.S. state or other jurisdiction’s laws similar in intent or effect); the costs and expenses of any litigation involving the Accounts and the amount of any judgments or settlements paid in connection therewith, relating to the business, activities and interests of the Accounts, including the costs of discovery related thereto and any indemnification expenses payable in accordance with the Offering Document; expenses associated with the preparation of the Accounts’ financial statements, tax returns and Schedules K-1; fees, costs and

expenses of relating to any forms, schedules, reports, filings, information or other documents prepared with respect to the U.S. Foreign Account Tax Compliance Act and any comparable non-U.S. filings; the cost of complying with side letter arrangements, including any “most favored nations” provisions and elections; expenses incurred in connection with winding up and liquidating the Fund; unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer; fees, costs, expenses and liabilities relating to derivatives and similar transactions; other expenses associated with the acquisition, holding and disposition of investments, including extraordinary expenses; developing, structuring, operating and winding up administrative structures in Luxembourg, Ireland (excluding, for the avoidance of doubt, any expenses related to Castlelake Aviation Holdings (Ireland) Limited) other European countries and elsewhere that are put in place to operate the Accounts’ investment activities (including any travel and accommodation expenses related to such structures, the salary and benefits of any personnel reasonably necessary for the maintenance of such structures, or other overhead expenses and rent in connection therewith); fees, costs and expenses related to complying with any law, rule, regulation, policy, directive or special measure in relation to privacy, data protection (including the EU Data Protection Law (as defined in the Offering Document), know-your-customer, anti-money laundering, sanctions or anti-terrorism considerations; and any other fees, costs, expenses, liabilities or obligations approved by a limited partner advisory committee, board or similar body of an Account. The Accounts may retain, or Castlelake may retain on behalf of the Accounts, unaffiliated third-party service providers to provide certain administrative, accounting, reporting, tax support, monitoring and other services with respect to the Accounts and certain of the Accounts’ subsidiaries. These service providers will be paid fees by the Accounts for these services that may be based on the assets being serviced and/or otherwise. To the extent any of the expenses are incurred on behalf of multiple Accounts managed by Castlelake or its affiliates, each Account will generally not bear more than its pro rata portion of such expenses, as determined by Castlelake utilizing a fair and reasonable allocation methodology given the circumstances of such expenses, unless Castlelake reasonably believes that another allocation methodology is more equitable. The foregoing types of expenses are not exclusive, and investors are encouraged to review the Offering Documents for more detailed expense provisions. The Accounts also bear expenses indirectly to the extent investments in an Account pays or bears expenses, including expenses of Castlelake and/or its affiliates. As a result, the Accounts likely bear additional and greater expenses, directly or indirectly, than many other pooled investment products, such as mutual funds.

Investors in Accounts that elect to participate in certain investments through tax blocker corporations will also bear a pro rata portion of taxes, fees or governmental charges and such other costs associated with a blocker corporation as reasonably determined by Castlelake.

The Accounts pay or reimburse Castlelake for certain expenses specified in their Offering Documents, which generally also include some or all of the expenses set forth in the preceding paragraph. Such expenses also include any fees, costs, expenses, taxes and indemnification amounts incurred on behalf of the issuer group member in the course of business activities permitted under the Accounts operative documents, including, without limitation, issuer expenses, ordinary course expenses, service provider fees relating to the assets, maintenance and modification expenses and asset trade payments with respect to the assets (not funded out of the maintenance support account, if applicable) and liquidity and hedging facility expenses.

Air travel expenses attributable to the activities of the Accounts and investments including potential investments, are charged accordingly as either economy or business/first class travel as the situation warrants. In certain circumstances where non-commercial air transportation is elected, such non-



commercial air transportation expenses charged to the Accounts are capped at commercial business/first class travel costs, as applicable; provided however where commercial air transportation is not available or where non-commercial air transportation is permitted by the operative documents, the actual costs of such non-commercial air transportation may be paid by the Accounts.

In certain circumstances, one Fund may pay an expense common to multiple Funds (including without limitation legal expenses for a transaction in which all such Funds participate, or other fees or expenses in connection with services the benefit of which are received by other Funds over time) and be reimbursed by the other Funds by their share of such expense as determined by Castlake on a fair and equitable basis, with or without interest. In certain circumstances, Castlake advances amounts related to the foregoing and receives reimbursement from the Funds to which such expenses relate.

*Valuation.* Castlake is responsible for valuing the securities, loans and other investments comprising the assets and liabilities of the Funds. Investments in liquid, marketable securities are typically “marked to market” by reference to the last generally available price quotation. Investments in illiquid or non-marketable securities and other assets for which reliable market quotations are not readily available are valued in a manner as Castlake determines on a consistent basis, so long as such methodology is consistent with U.S. generally accepted accounting principles (“U.S. GAAP”). Castlake will typically apply the valuation technique (income approach, market approach and cost approach) that is appropriate in the circumstances and will obtain and may rely on information provided by any source or sources reasonably believed to be accurate in determining the value of the investments or assets. It is often appropriate to use a combination of any or all of the valuation techniques and related information. Determining how to measure the values when using multiple techniques may change over time based on changes in facts and circumstances. A conflict of interest arises due to the fact that a higher fair value assigned to such investment can result in greater management fees paid (where management fees are based on net asset values). Valuations assigned to securities, loans and other investments are not necessarily equivalent to the value that can be realized by the Funds on the sale of those securities, loans and other investments. In addition, there is a risk that the valuations of an investment made pursuant to U.S. GAAP may differ from the price at which an investment is actually sold.

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

The Accounts are subject to performance-based compensation payable to Castlake or its affiliates. Castlake affiliates will receive carried interest with respect to the Funds generally equal to a percentage of net profits, generally subject to a preferred return or hurdle return, as described more fully in the respective Offering Documents. In addition, the respective Funds may make cash distributions to Castlake affiliates in amounts sufficient to pay individual income taxes on income allocated to such affiliates for tax purposes, which amounts may not be repaid in the event the applicable preferred return has not been met. Distribution of performance-based compensation generally commences after invested capital and the applicable preferred return have been distributed to investors. In addition, certain Funds include servicing fees and/or other similar fees that are used in calculating net management fees.

The existence of carried interest or other performance-based compensation creates a conflict of interest because it is not proportionate to the capital contributions of Castlake affiliates to a Fund and may create an incentive for Castlake to make riskier or more speculative investments, or to dispose of an investment sooner or later than otherwise would be the case, with the aim to attempt to increase

performance compensation paid. This conflict is mitigated through the Funds' diversification and eligibility requirements, ongoing risk management and internal governance and the fact that Castllake's Principals invest a significant amount of their personal capital or net worth in the Funds. In addition, Castllake's investment allocation process described in Item 10 of this brochure further mitigates the risk of investments being allocated for the primary purpose of attempting to increase performance compensation.

With respect to aviation vehicles and other financing structures, the following types of performance-based compensation may be incurred and payable to Castllake as servicer, facility manager or similar role: (1) incentive or similar fee is payable (A) based on the performance of the portfolio or (B) if the amount of rent or similar income received during certain periods of time, net of certain maintenance-related payments, is equal to or greater than an agreed upon percentage of the projected net amount for the related period of time; (2) sales fees are payable as incurred upon net sales proceeds arising from the sale of assets; (3) remarketing fees are payable in the case of entering into a new lease or extending the lease term, and (4) end of lease compensation is payable on a percentage basis to the extent amounts of lease compensation exceed transaction related maintenance expenses actually incurred.

Castllake manages multiple Funds at any given time, and to the extent that Castllake personnel are assigned varying percentages of carried interest from the Funds, such personnel are subject to conflicts of interest to the extent they are involved in identifying investment or disposition opportunities as appropriate for the Funds from which they are entitled to receive a higher carried interest percentage and/or which are more likely to generate carried interest. This side-by-side management creates a conflict of interest in that Castllake could provide more favorable investment or disposition opportunities to Funds with more favorable compensation arrangements. Castllake seeks to mitigate this conflict of interest with allocation policies and/or practices that provide those transactions and investment or disposition opportunities will be allocated to the Funds in accordance with each Funds' investment guidelines and Offering Documents, as well as other factors that do not include the amount of performance-based compensation received by Castllake or any personnel.

## **Item 7 - Types of Clients**

Castllake provides investment advice to the Accounts. Account investors generally consist of state, local and corporate pension and profit-sharing plans, trusts, estates, charitable organizations, endowments, corporations, insurance companies, business entities, private fund-of-funds, foreign sovereign wealth funds, family offices and/or high net worth individuals. Employees of Castllake who qualify as "knowledgeable employees" under Rule 3c-5 of the Investment Company Act of 1940 are also permitted to invest (directly or indirectly) in the Funds.

The Funds may include alternative investment vehicles established from time-to-time in order to permit one or more investors to participate in one or more particular investment opportunities in a manner desirable for tax, regulatory or other reasons. Alternative investment vehicle sponsors generally have limited discretion to invest the assets of these vehicles independent of limitations or other procedures set forth in the organizational documents of such vehicles and the related Fund.

Generally, the Accounts impose minimum investment requirements upon investors that can be waived in certain circumstances, as set forth in the respective Offering Documents.

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

### **Methods of Analysis**

The methods of analysis are conducted at varying levels depending upon the markets and participants involved. Castlelake generally performs quantitative and qualitative fundamental research to determine the suitability of a particular investment and in the context of the relevant industry. Certain research, particularly quantitative, may be outsourced to operating partners or other third parties. Depending on the investment, investment professionals will employ a variety of analysis techniques that may include any combination of the following: financial models to analyze comparable valuations in the public and private markets, a discounted cash flow analysis, a reorganization analysis and liquidation analysis, and/or an analysis of potential returns for the investment to name a few. Castlelake utilizes this analysis to determine the price range at which to pursue the investment opportunity.

### **Investment Strategies**

More detailed information regarding Castlelake's investment strategies and activities described below is set forth in the Offering Documents. Castlelake's investment strategies are centered on: (i) aviation; (ii) real assets; and (iii) specialty finance. Consistent with Castlelake's overall investment approach, there is an emphasis on direct asset investing and/or financing opportunities. Castlelake may utilize a series of joint-venture asset operating partnerships in a variety of the investments other than aviation under which the operating partners provide a focus on managing the daily details of the investments regarding payments and administration. Generally, and as applicable, Castlelake seeks to maintain control over, or is involved in, economic and strategic decisions, working either in collaboration with the specific operating partners, or within the governance structure of a portfolio company in which the Funds hold an equity interest. At times, Castlelake also seeks to focus on certain deep value opportunities where control can be established, or an active role can be taken in a restructuring. Please note that not all Accounts invest in all of the same types of investments and certain types of investments have been de-emphasized or added over time.

*Aviation.* Castlelake seeks to employ a hands-on approach in aircraft investing with a large, dedicated team that is capable of managing all aspects of the investing lifecycle from origination and financing, to structuring, to technical management and trading. Castlelake invests in aircraft and aviation assets, and offers tailored financing, leasing and servicing solutions. Castlelake focuses on commercial aircraft and engines and aviation secured debt. Castlelake's team includes technical experts, risk management professionals, and dedicated financing specialists that operate as needed at every stage of an investment. Castlelake's investments also involve secured loans and other financing packages to airlines or lessors that look to refinance or acquire aircraft or to otherwise finance their business operations. Depending on the strategy set forth in the Offering Documents, aviation investments may focus on new or younger mid-life aircraft generally yielding stable lower returns or older aircraft and related assets generally with a higher risk and higher return profile. Castlelake's aviation strategy also includes certain of the Vehicles collateralized by aircraft.

*Real Assets.* Castlelake seeks to employ asset expertise, structuring experience and nuanced jurisdictional insight to seek to generate value through investments across a diverse set of opportunities in North America and Europe, including in transitional real estate, infrastructure, renewables and power stability and sub and non-performing loans. Castlelake invests across industries, geographies and capital

structures in asset-rich opportunities that are challenged by complexity or illiquidity. Castlelake focuses on assets in sectors undergoing change and provide financing, repair capital structures, navigate restructuring and/or improve operations. Castlelake is also focused on restructurings, direct financings and discrete opportunities backed by hard assets across dislocated and cyclical industries in need of liquidity.

*Specialty Finance.* Castlelake is focused on consumer finance receivables, commercial and industrial loans, and other forms of finance and leasing globally. Castlelake invests in a wide variety of specialty finance asset classes, including consumer credit across the risk spectrum, commercial credit opportunities such as small business credit and equipment finance and leasing, and other asset-backed/esoteric asset classes.

## **General Risks**

The transactions that Castlelake engages in involve substantial risks. Growing competition may limit the ability to take advantage of investment opportunities in rapidly changing markets or to access investment opportunities believed to be attractive. Investing involves risk of loss that an investor should be prepared to bear.

Due to the nature of Castlelake's trading and investment activities, results may fluctuate from month to month and from period to period. Accordingly, investors should understand that the results of a particular period will not necessarily be indicative of results in future periods. Certain of the material risks presented by Castlelake's strategies and investments are set forth below, provided that additional information and additional risks specific to the Accounts will be contained in the respective Offering Documents. This brochure does not purport to contain a complete disclosure of all risks that may be relevant to an existing or prospective investor.

## **Material Risks**

*Concentration of Investments.* In its multi-strategy Funds, Castlelake is generally not limited in the amount of the Funds' capital to one industry. Although Castlelake will follow a general policy of seeking to spread the Funds' capital among a number of investments, issuers, industries and geographies, Castlelake may depart from such policy from time-to-time and the Funds may hold one or more investments that are relatively large in relation to a Fund's capital or are concentrated in a single issuer or a group of related issuers or in a single industry or in a focused geographical area, all to the extent permitted by the Offering Documents. Although Castlelake's aviation-focused funds will be heavily concentrated in aviation investments, Castlelake will also follow a general policy of seeking to spread such Funds' capital among a number of investments, issuers and geographies. However, Castlelake may depart from such policy from time-to-time and the aviation-focused Funds may hold one or more investments that are relatively large in relation to a Fund's capital or are concentrated in a single issuer or a group of related issuers or in a focused geographical area. The result of such concentration of investments is that a loss in any such position could materially reduce the relevant Fund's investment returns and/or capital.

*Availability of, and Competition for, Suitable Investments.* The activity of identifying, completing and realizing attractive investments is usually highly competitive, and involves a high degree of uncertainty. Castlelake competes for investments with many other investors, including, other investment partnerships and corporations, strategic industry acquirers, institutional investors, banks and other financial institutions and other financial investors, including hedge funds and private equity funds

investing directly or through affiliates. Further, over the past several years, an ever-increasing number of private equity funds have been or are being formed (and many existing funds have grown in size). Additional funds with similar investment objectives may be formed in the future by other unrelated parties. Some of these competitors may have more relevant experience, greater financial resources, a greater willingness to take on risk and more personnel than Castlelake and its affiliates. The Funds may also incur significant expenses identifying, investigating and/or attempting to make potential investments that are ultimately not consummated. Castlelake expects that competition for appropriate investment opportunities may increase, which may reduce the number of investment opportunities available to the Funds and/or adversely affecting the terms upon which investments can be made. There can be no assurance that the Funds will be able to locate, complete and exit investments which satisfy the Funds' rate of return objective or realize upon their values or that it will be able to fully invest its available capital. It is possible that the capital committed to or called by a Fund will never be fully invested if enough sufficiently attractive investments are not identified. An investor should be aware that it may lose all or part of its investment in the Funds.

*Inflation.* Inflation has the potential to affect a Fund's performance in a number of ways. Certain countries, including the U.S., have recently seen increased levels of inflation, and in an attempt to stabilize inflation, countries may intervene in the economy in a myriad of ways. Governmental efforts to curb inflation often have negative effects on the level of economic activity. As inflation rises, a portfolio investment may earn more revenue but may incur higher expenses. As inflation declines, a portfolio investment may not be able to reduce expenses commensurate with any resulting reduction in revenue. Furthermore, wages and prices of inputs increase during periods of inflation, which can negatively impact returns on investments. If a Fund is unable to increase the revenue and profits of its investments at times of higher inflation, it may be unable to pay out higher distributions to the limited partners of a Fund to compensate for the decrease in value of the money, thereby affecting the expected return of investors. A Fund could also be adversely affected if the market value of its investments decline during times of higher inflation. There can be no assurance that continued and more wide-spread inflation will not become a serious problem in the future and have an adverse impact on a Fund's returns.

*Increases in Assets under Management.* Despite limitations on commitments on a Fund-by-Fund basis, Castlelake has not limited the aggregate amount of assets it may manage. Subject to requirements in the Offering Documents, Castlelake will raise new funds, vehicles or other investment products, may pursue new investment strategies and will continue to seek new investment capital from suitable sources. There can be no assurance that appropriate investment opportunities will be available to accommodate future increases in assets under management, which may require Castlelake to modify its investment decisions for the Funds because it cannot deploy all the assets in the manner it desires.

*Asset Managers and Service Companies.* Castlelake may enter into arrangements with asset or industry specialized management or advisory teams (which may include joint venture partners) ("Asset Managers" or "Operating Partners") to acquire, manage and dispose of certain assets, which can include expense, fixed payments and/or profit-sharing arrangements with such persons, thus impacting returns to the Funds. Such payments and profit-sharing arrangements are in addition to the expenses, management and other fees and performance-based compensation to Castlelake and its affiliates and are not subject to an offset if paid to a third party. It is possible for certain Asset Managers to receive incentive compensation related to the value or performance of specific assets serviced by them even though a Fund, as a whole, does not have positive returns. The failure on the part of Castlelake to select or retain the right Asset Managers and/or to establish a governance and compensation structure that provides for the

appropriate balance of economic incentives to the Asset Manager and oversight by Castlelake, or to provide servicing with respect to certain assets (including securitization-like vehicles) on its own, could adversely impact the Funds. If an Asset Manager breaches its governing agreement or otherwise fails to perform its responsibilities adequately, the Funds may be adversely affected. In addition, given the specialized nature of these service providers, they may be difficult to replace if needed and transfers of responsibilities may cause a disruption of servicing or performance of the related investment.

*Use of Affiliates for Servicing.* Castlelake or its affiliates act as servicer and receive compensation from the Vehicles in which some Funds have an interest and expects to do so in the future for other Fund investments or entities, provided that fees to affiliated servicers will typically be structured (via offset to management fees or otherwise) so that, in addition to the payment of management fees, a Fund does not effectively bear the fees with respect to its allocable portion of investment in the Vehicles, financing facility or other entity. This can be accomplished through special allocation of the relevant fees to investors other than the Funds, or if any Fund is subject to such fees payable to Castlelake or its affiliates, any such amounts (net of related expenses) are applied to offset the Fund's management fees. In general, these management fee offsets apply only with respect to the capital commitments of fee-paying investors and do not apply if a Fund ceases to pay management fees at the end of its term or otherwise. In addition, if these fees exceed management fees, depending on the terms of the relevant offering documents, such additional fees will be retained by Castlelake or potentially shared in whole or part with the Funds. The provisions noted herein do not apply if one portfolio company is providing services to another portfolio company or Fund.

To the extent that servicing with respect to certain assets is performed in-house by Castlelake employees, there can be no assurance that the Firm will in the future be able to attract, train, develop, integrate or retain, suitable employees with the skills required to provide such servicing. Qualified personnel, in particular technical aviation servicing professionals, are in great demand throughout the aviation industry. Competitors and other entities may attempt to recruit Castlelake's employees. The loss of such personnel, the inability to identify, attract or retain qualified personnel in the future or delays in hiring qualified personnel, particularly technical aviation servicing professionals, may make it difficult for Castlelake to service such assets.

*Proprietary Information.* Castlelake relies on trade secret and other similar laws and confidentiality agreements with employees and third parties to protect its confidential information, proprietary data and databases including related to aircraft and aviation assets, intellectual property and portfolio modeling approach ("intellectual property rights"), all of which offer only limited protection. Castlelake's intellectual property rights may be compromised, stolen, lost or invalidated, or competitors may develop similar intellectual property rights independently. Legal proceedings to enforce Castlelake's intellectual property rights may be unsuccessful and could also be expensive and divert management's attention.

*Co-Investment Risks.* Castlelake may provide or commit to provide co-investment opportunities to one or more Fund investors and/or third parties ("Co-investor"). There are risks in connection with such third-party involvement, including the possibility that a co-investor may at any time have economic or business interests or goals that are inconsistent with the Funds and may have at any time financial difficulties, resulting in a negative impact on such investment, may have economic or business interests or goals which are inconsistent with those of the Accounts, or may be in a position to take (or block) action in a manner contrary to the Fund's investment objectives. In addition, the Fund may in certain

circumstances be liable for actions of a co-investor or be responsible for expenses not allocable or recoverable from a co-investor.

Conflicts of interest may arise in the allocation of such co-investment opportunities. The allocation of co-investment opportunities, which may be made to one or more persons for any number of reasons as determined by Castllake in its discretion, may not be in the best interests of the Fund or any individual investor. In exercising its discretion in connection with such co-investment opportunities, the Castllake may consider some or all of a wide range of factors, in certain cases including factors which benefit Castllake such as the likelihood that an investor may invest in a future fund sponsored by Castllake or its affiliates. See “Conflicts of Interest - Co-Investments” below for additional information. Castllake seeks to mitigate this conflict of interest with allocation policies and practices that provide that transactions and investment opportunities will be allocated to the Funds in accordance with each Funds’ investment guidelines and Offering Documents. Castllake’s investment allocation process described in Item 10 of this brochure further mitigates the risk of investments being allocated inappropriately.

Funds may also co-invest in investments with third parties through partnerships, joint ventures or other entities or arrangements, which, among other things, may result in the Funds lacking control or having limited influence. Such investments may involve risks, including the possibility that a third-party co-investor or partner may at any time have economic or business interests or goals that are inconsistent with those of the applicable Fund, or may be in a position to take action contrary to the investment objectives of such Fund. In addition, a Fund may in certain circumstances be liable for actions of its third-party co-investor or partner. There can be no assurance that such Fund’s return from a transaction would be equal to and not less than the return of another party that was allocated a co-investment opportunity and that is participating in the same transaction. Further, expenses relating to potential co-investments that are not consummated may be borne by the Funds. Also, any co-investment by the Funds through a SPV may expose the Funds to additional risk given that the SPV may not have segregation of liabilities arising from different investments, and the Funds can have liability regardless of whether they participate in all investments made by such SPV or otherwise in excess of its participation percentage if any other SPV participant defaults on its obligations.

When and to the extent that employees and related persons of Castllake make capital investments in or alongside a Fund, Castllake is subject to conflicting interests in connection with these investments. Castllake’s allocation of co-investment opportunities among such persons may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some persons relative to others.

*Third Party Involvement.* The Funds may co-invest in investments with third parties through limited liability companies, joint ventures or other entities. These investments involve risks not present if a third party were not involved, including the possibility that the third party can take action contrary to the investment objectives of the Fund, may be unable or unwilling to perform its duties or obligations under the relevant agreements, may have financial, legal or regulatory difficulties resulting in a negative impact on a joint venture, or may have economic or business interests or goals which are inconsistent with those of the Funds. In addition, a Fund may in certain circumstances be liable for actions, costs and/or expenses of its third-party co-investors. Castllake’s ability to exercise control or significant influence in connection with the joint venture may be limited and will depend on the nature of the governing documentation.

*Execution Risks.* The execution of the investment strategies employed by Castlelake can involve complex transactions, use of negotiated terms with counterparties and difficult to execute transactions. In each case, Castlelake seeks best execution and has trained execution and operations professionals devoted to executing and settling such investments. However, in light of the complexity and global diversity involved, some slippage, errors and miscommunications with brokers and counterparties are inevitable and may result in losses to the Funds and Vehicles. Castlelake may choose to forego pursuing claims against brokers and counterparties on behalf of the Funds for any reason including, but not limited to, the cost of pursuing claims relative to the likely amount of any recovery and the maintenance of its business relationships with brokers and counterparties. Castlelake is not liable to the Funds for losses caused by brokers or counterparties.

*Portfolio Company Management Teams.* In the case of investments made by the Funds with respect to companies, each such company's day-to-day operations will generally be the responsibility of that entity's management team. There can be no assurance that the existing management team, or any successor management team, will be able to operate the company in accordance the plans or expectations of Castlelake. Some of the Funds' investments will represent minority and/or non-voting positions in portfolio companies, and, although Funds in certain circumstances have representatives that serve on the boards of directors, such representatives may not have the power individually to exert significant control over a portfolio company's boards of directors and management. The Funds will rely significantly on the existing management and boards of directors of such portfolio companies, which may include unseasoned directors, managers and representatives of other investors with whom the Funds are not affiliated and whose interests or views conflict with the interests of the Funds. To the extent that the management of a portfolio company performs poorly, or if a director or key manager of a portfolio company engages in misconduct, commits material errors in carrying out his or her duties, or terminates his or her employment or association with such company, the applicable Funds' investment in such company will be adversely affected.

*Counterparty and Settlement Risks.* Many of the markets in which Castlelake effects transactions are through private transactions. Some of the markets are "over-the-counter" or "interdealer." The counterparties in such private transactions and participants in these types of markets are typically not subject to the same credit evaluation and regulatory oversight as are members of "exchange-based" markets. There is a risk that a counterparty will not settle a transaction because of a credit or liquidity problem. In addition, there may be practical, or timing problems associated with enforcing the Accounts rights to its assets in the case of an insolvency of any such party. Many non-U.S. countries have different clearance and settlement procedures from developed countries. There may be no central clearing mechanism of settling investments and no central depository or custodian for the safe keeping of securities. The registration, recordkeeping and transfer of instruments can be carried out manually, which may cause delays in the recording of ownership. Certain markets have experienced periods when settlement dates are extended, and during the interim, the market value of an instrument may change. Moreover, certain markets have experienced periods when settlements did not keep pace with the volume of transactions resulting in settlement difficulties. Because of the lack of standardized settlement procedures in some non-U.S. countries, settlement risk is more prominent.

*Tax Considerations.* The Accounts may take positions with respect to certain tax issues that depend on legal and other conclusions not yet addressed by the courts or governing tax authorities. Should any such positions be successfully challenged by governing tax authorities, there could be a material adverse effect on the Funds.



*Pay-to-Play Laws, Regulations and Policies.* A number of U.S. states and municipal pension plans have adopted so-called “pay-to-play” laws, regulations or policies which prohibit, restrict or require disclosure of payments to (and/or certain contacts with) state officials by individuals and entities seeking to do business with state entities, including those seeking investments by public retirement funds. The U.S. Securities and Exchange Commission (the “SEC”) has a rule that, among other things, prohibits an investment adviser from providing advisory services for compensation to a government client for two years after the adviser or certain of its executives or employees makes a contribution to certain elected officials or candidates. If Castlake or any of its employees or affiliates or any service provider acting on its behalf, fails to comply with such laws, regulations or policies, such non-compliance could have an adverse effect on the Fund. Certain investors may also seek to pursue individual remedies, including withdrawal rights, which may be included in side letters or otherwise imposed by statute.

*Risk of Controlled Group Liability for Portfolio Company Pension Plans.* The Fund, along with its affiliates (which could include any parallel or related funds), may obtain a controlling interest (e.g., 80% or more voting control or value for a corporation or capital or profits interest for a Fund or LLC) in certain portfolio investments which may impose risks of liability to the Fund under ERISA for a portfolio investment’s underfunded pension plans, including withdrawal liability under any Taft-Hartley/multiemployer plans in which such portfolio investment’s contribute. Such liabilities might arise if the Fund (or Castlake, on behalf of the Fund) were deemed to be engaged in a “trade or business” under ERISA. The determination of whether an investment fund, like the Fund, is engaged in a trade or business under ERISA is uncertain and could depend upon which U.S. Federal Circuit has jurisdiction over the matter. Activities which may indicate the possibility of a trade or business being conducted as opposed to passive investment, include, but, are not limited to, management of such portfolio investment’s operations, authority with respect to the hiring, termination and compensation of such portfolio investment’s employees and agents and receipt of fees or other compensation that offset the Management Fee for services provided to such portfolio investment by the Fund or its affiliates, including Castlake. If the Fund (along with its affiliates and any parallel or related funds) were treated as both engaged in a trade or business for purposes of ERISA and to be under common control with the portfolio investment, then the Fund (and certain affiliates of the Fund in the same ERISA controlled group (e.g., other controlled portfolio investments)) could be jointly and severally liable to satisfy the liabilities of a specific portfolio investment to an ERISA pension plan (i.e., the Fund might suffer a loss which is greater than its actual investment in the specific portfolio investment to the extent that such portfolio investment becomes insolvent and is unable to satisfy its own obligations). It should be noted that the test as to whether the Fund is engaged in a trade or business for purposes of ERISA may not necessarily be the same as the test that would be used for U.S. Federal income tax purposes.

*Litigation.* Litigation can and does occur in the ordinary course of the management of the Accounts. The Accounts may be engaged, directly or indirectly through various subsidiaries, in litigation both as a plaintiff and as a defendant. Such litigation can arise as a result of credit disputes, defaults, bankruptcies or other reasons. The outcome of such proceedings may materially adversely affect the value of the Funds and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of the time and attention of Castlake and its affiliates, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation. Litigation entails expense and the possibility of counterclaims against the Funds including Castlake and its affiliates and ultimately judgments may be rendered against a Fund for which such Fund does not carry insurance. Castlake and others are indemnified by the Accounts in connection with such litigation, subject to certain conditions. The expense of defending against third-party claims made against the

Accounts, their portfolio investments or persons indemnified by them and paying any amounts pursuant to settlements or judgments generally would be borne by the Funds or the Accounts and may be significant unless indemnification or other rights can be enforced, or insurance is available.

*Contingent Liabilities.* The Funds may from time-to-time incur actual or potential contingent liabilities in connection with an investment and/or in connection with financing for such investments. The Funds may also enter into agreements pursuant to which they agree to assume responsibility for default risk presented by a third party. In addition, the Funds may purchase investments that are subject to contingent liabilities. These arrangements may result in contingent liabilities which will be borne by such Funds.

*Limitations on Actions and Indemnification.* The Offering Documents limit the circumstances under which Castlelake and respective general partners, investment managers and similar entities can be held liable to the Funds or the Vehicles. As a result, the Funds or Vehicles may have a more limited right of action in certain cases than they would in the absence of such a limitation. In addition, the Funds and the Vehicles are required to indemnify Castlelake, its affiliated persons and entities (including employees, officers, directors, partners and members) and other parties set forth in the Offering Documents, including, without limitation, members of the Funds' Advisory Committees and boards of directors of subsidiaries and portfolio companies for liabilities incurred in connection with the affairs of the Funds and/or the Vehicles, absent (among other things) bad faith, gross negligence or willful misconduct. The application of the foregoing standards can result in the Funds and the Vehicles bearing significant financial losses even where such losses were caused by the negligence (even if heightened) of the covered persons. Although insurance may exist, such insurance may not be sufficient, may not be applicable or may not be elected for various reasons. The indemnification obligations of a Fund would be payable from the assets of that Fund, including the unfunded capital commitments to such Fund. If the assets of a Fund are insufficient to pay any such indemnification obligations, distributions already made by such Fund may be recalled in order to pay such obligations.

*Exit Risk.* There is risk that Castlelake will be unable to realize investment objectives through the sale or disposition of investments at an attractive price, within any given period of time, or will otherwise be unable to complete any exit strategy. In particular, these risks could arise from the absence of an established market for investments, changes in the financial condition or prospects of prospective purchasers, lack of prospective purchasers at reasonable prices or at all, changes in national or international economic or political conditions and changes in laws, regulations or fiscal policies of jurisdictions in which investments are located. The foregoing will often make it unlikely that a Fund will be able to fully exit all investments within its stated term and the liquidation of such Fund may extend materially beyond such term.

*Projections. No Assurance of Investment Return.* The Funds will make investments relying upon projections developed by Castlelake, operating or joint venture partners or a portfolio company management team concerning future performance of the relevant assets and cash flow. In all cases, projections are only estimated future results that are based upon information developed by Castlelake and/or received from third parties and upon assumptions made at the time the projections are developed. Projections are inherently uncertain and subject to factors beyond the control of Castlelake and the portfolio investment in question. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of unforeseen events could

materially impair the ability of Funds to realize projected values and/or cash flow. There is no assurance that the Funds will be able to invest their capital on attractive terms or generate returns for their investors. There can be no assurance that the Funds' investments will increase in value or that the Funds or their investments will not incur significant losses.

*Unspecified Investments.* The Funds generally have broadly permissive investment mandates with limited prohibitions on certain types of investments. Castllake has significant discretion to pursue investments that it deems to be consistent with the investment objectives of a Fund. With limited exceptions, the Offering Documents of the Funds do not identify the specific investments that they will make or specify mandatory allocations among their respective strategies. Accordingly, investors must rely upon the ability of Castllake to identify, structure and make investments consistent with the Funds' investment objectives and policies. Although Castllake has been successful in locating investments in the past, the Funds may be unable to find a sufficient number of attractive opportunities to invest the committed capital or meet their investment objectives.

*Need for Follow-On Investments.* Following an initial investment, Funds may decide to provide additional funds to an investment or may have the opportunity to increase an investment. If a Fund is able to make a follow-on investment, this may result in capital being called after the investment or commitment period or even after the term of the Fund, subject to the terms and conditions of the offering documents. There is no assurance that Funds will make follow-on investments or will have sufficient funds to make all or any of such investments. Any decision not to make follow-on investments or the inability to make such investments may have a substantial negative effect on an investment in need of such an investment or may result in a lost opportunity for the Funds to increase participation in a successful investment. Additionally, such failure to make such investments may result in the dilution of Funds' ownership in an investment if a third party or another Fund invests in such investment. In addition, many investments, particularly those in "platform" phase, may need additional capital to sustain their working capital needs. If the capital provided by Funds is not sufficient, or Funds are unable to provide additional capital, further capital may need to be raised for an investment at an unfavorable price. To the extent some or all of the existing Funds do not participate in additional financing rounds, those Funds' interests in an investment may be diluted, potentially materially.

The Fund's ability to call capital for defensive follow-on investments (whether during or after the Investment Period) is not subject to a cap. As a result, Castllake may call a significant amount of capital following the Investment Period in respect of defensive follow-on investments. *Investments Longer than Term.* The Funds may make investments that have durations that are notionally longer than the expected term of the Funds and which the Funds, as part of the investment thesis, expect to be able to exit earlier than maturity of such investments. Castllake may not be able to achieve these exits in timely fashion. In addition, the Funds may make investments which may not be advantageously disposed of, or have liabilities that may not be resolved, prior to the expiration of a Fund's term or otherwise. Although Castllake expects that investments will be disposed of prior to winding up and termination or be suitable for in-kind distribution at the winding up and termination and Castllake has a limited ability to extend the term of a Fund, a Fund may have to sell, distribute or otherwise dispose of investments or resolve litigation or other contingent liabilities at a disadvantageous time as a result of the winding up and termination. These investments may also suffer from a lack of capital if such investments need capital, but the Funds are at a stage such that no capital is available. In addition, there can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds from the Fund will occur and such will often extend beyond the stated term of a Fund, potentially materially so.

*Cyber Security Breaches and Identity Theft.* Cyber-attacks and other malicious Internet-based activity continue to increase in frequency and magnitude. Techniques used to sabotage, or to obtain unauthorized access to, systems or networks change frequently and generally are not recognized until launched against a target. Neither Castlelake nor any third-party partners or service providers may be able to anticipate these techniques, react in a timely manner, or implement adequate preventive measures. Castlelake's information and technology systems may be vulnerable to actual or perceived damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by its professionals or service providers, other disruptive behavior including denial-of-service attacks, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Cyber-attacks may also take the form of socially engineered frauds, such as "phishing". Like many other businesses, Castlelake has defended against phishing efforts and both Castlelake and the Funds are at risk of "phishing" and other cyber-attacks. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of Castlelake's systems to disclose sensitive information in order to gain access to Castlelake's data or that of the Funds and/or to send money to improper accounts or locations.

Although Castlelake has implemented various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, Castlelake and/or the Accounts it manages, or services may have to incur significant expenses to fix or replace them and seek to remedy the effects of such issues. The failure of these systems and/or of business continuity or disaster recovery plans for any reason could cause significant interruptions in operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including confidential or proprietary information and/or personal information relating to investors (and the beneficial owners of investors). Such a failure could harm the reputations of Castlelake and/or the Funds reputation and subject any such entities and their respective affiliates to legal claims, regulatory penalties or otherwise affect their business and financial performance. In addition, the insurance coverage of Castlelake or the Funds may be insufficient to compensate any such entities and its respective affiliates or counterparties for incurred liabilities, which may result in potential loss to the Funds, including, if applicable, as a result of indemnification obligations benefitting Castlelake.

*Data Privacy and Protection.* Data protection laws and regulations related to privacy, data protection and information security could increase costs for Castlelake and the Accounts, and a failure to comply could result in fines, sanctions or other penalties, which could materially and adversely affect the results of operations of the investments of the Accounts.

Castlelake is subject to laws and regulations related to privacy, data protection and information security in the jurisdictions in which it does business. As privacy, data protection and information security laws are implemented, interpreted and applied, compliance costs to the Accounts may increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place.

The General Data Protection Regulation (EU 2016/679) (the "GDPR") replaced the pre-existing EU data protection legislation and seeks to harmonize national data protection laws and enforcement across the EU. The GDPR notably has a greater extra-territorial reach than the pre-existing legislation and will have a significant impact on data controllers and data processors: (i) with an establishment in the EU; (ii)

that offer goods or services to EU data subjects; or (iii) that monitor EU data subjects' behavior within the EU.

The UK Data Protection Act 2018 and the UK General Data Protection Regulation address personal data privacy law across the UK. The DPA and UK GDPR govern the processing, such as the use or holding of personal data. On 28 June 2021, the EU approved an adequacy decision for the UK GDPR. This means data can continue to flow as it did before, in the majority of circumstances. The decision is expected to last until 27 June 2025. The General Data Protection Regulation has been kept in UK law as the UK GDPR.

Compliance with current and future privacy, data protection and information security laws could significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data and some of Castlelake's current and planned business activities. A failure to comply with such laws could result in fines, sanctions or other penalties, which could materially and adversely affect results of operations and overall business, as well as have an impact on reputation.

*Anti-Money Laundering Requirements.* In response to regulatory concerns with respect to the sources of funds used in investments and other activities, Castlelake may decline to accept a subscription on the basis of the information that is provided by a prospective investor in a Fund or if such information is not provided. Requests for documentation and additional information may be made at any time by third parties. Castlelake or its affiliates may be required to provide this information or report the failure to comply with such requests, to appropriate governmental authorities, in certain circumstances without notifying the investors in a Fund that the information has been provided. Castlelake takes such steps as it determines are necessary to comply with applicable law, regulations, orders, directives or special measures.

*Prime Broker and Custody.* Funds can rank as an unsecured creditor to its prime brokers in relation to assets that a prime broker borrows, lends or otherwise uses and, in the event of the insolvency of the prime broker, Funds might not be able to recover equivalent assets in full. In addition, if applicable law permits, cash or assets that a prime broker holds or receives on the Funds' behalf may not be treated by a prime broker as "client assets," may not be segregated from the prime broker's own assets and may be used by a prime broker in the course of its investment business. In such event, the Funds will rank as one of a prime broker's unsecured creditors. The Funds' custodian may not be responsible for cash or assets that are held by sub-custodians in certain non-U.S. jurisdictions, nor for any losses suffered by the Funds as a result of the bankruptcy or insolvency of any such sub-custodian. Custody services in certain non-U.S. jurisdictions remain undeveloped and accordingly there is a transaction and custody risk of dealing in certain non-U.S. jurisdictions.

*Market Conditions.* Investments rely upon local market conditions, and in part, upon the continuation of existing market conditions (including, for example, supply and demand characteristics) or, in some circumstances, upon the assumption or projection of more favorable market conditions existing at an expected exit. No assurance can be given that Fund investments can be acquired or disposed of at favorable prices or that the market for such assets will either remain stable or, as applicable, recover or improve, since this will depend upon events and factors outside the control of Castlelake. This may result in loss to the Fund or poor investment returns and/or longer hold periods, including beyond the end of the term of a Fund

*FCPA Considerations.* Castlelake is subject to certain laws including with the U.S. Foreign Corrupt Practices Act (“FCPA”) and other anti-corruption, antibribery and anti-boycott laws and regulations, both under U.S. and non-U.S. law. The Funds may be adversely affected because of their intention not to participate in transactions that violate such laws or regulations. Such laws and regulations will make it difficult in certain circumstances for the Funds to act successfully on investment opportunities and for investments to obtain or retain business. Castlelake has developed and implemented policies and procedures designed for compliance with the FCPA and other applicable anti-bribery laws, but such policies and procedures may not be effective in all instances to prevent violations. In addition, in circumstances under which the Funds do not control an investment, activities that could result in violations of the FCPA or other applicable laws may occur. Any determination that Castlelake has violated the FCPA or other applicable anti-corruption, anti-bribery or anti-boycott laws could subject Castlelake and/or the Funds to, among other things, civil and criminal penalties and fines, profit disgorgement, injunctions, litigation and a general loss of investor confidence, any one of which could adversely affect the business prospects of Castlelake, as well as the Funds’ ability to achieve their investment objectives and/or conduct their operations and which could result in loss of capital.

*Regulations Relating to Climate Change, Noise Restrictions and Greenhouse Gas Emissions.* Regulations relating to climate change, noise restrictions and greenhouse gas emissions may have a negative effect on the airline industry. Governmental regulations regarding aircraft and engine noise and emissions levels apply based on where the relevant aircraft is registered and operated. Even if a jurisdiction does not require any phase-out of aircraft that meet the older standards applicable to engines manufactured or certified prior to the effective date of the new regulations, there is no guarantee that there will not be any impositions of operating limitations on aircraft that is not consistent with these new standards set in the future. In addition, concerns over global warming could result in more stringent limitations on the operation of aircraft powered by older, noncompliant engines, as well as newer engines.

In addition, noise, emission, and aircraft age regulations could limit the economic life of aircraft, reduce their value, limit the Funds’ ability to lease or sell the non-compliant aircraft or, if engine modifications are necessary, require the Funds to make significant additional investments in the aircraft to make them compliant. Compliance with current or future regulations, taxes or duties imposed to deal with environmental concerns could cause lessees to incur higher costs and to generate lower net revenues, resulting in an adverse impact on their financial conditions. Consequently, such compliance may affect lessees’ ability to make rental and other lease payments and reduce the value the Funds receive for the aircraft upon any disposition, which could negatively affect the Funds’ ability to make distributions to investors.

To the extent applicable, if an Account invests in other assets or industries impacted by climate change, noise restrictions and greenhouse gas emissions related regulations, then such investments may be similarly impacted as noted above.

*Environmental, Social and Governance (“ESG”) Factors.* Except as otherwise may be provided in the Offering Documents, Castlelake strives to integrate ESG factors into the investment process along with other material financial, industry-related, macroeconomic and qualitative indicators. The determinants of both risk and opportunity in the asset markets in which Castlelake operates includes an array of complex and intricately linked factors ranging from environmental, social and health crises, to changing regulatory environments, geo-political dynamics, investor preferences and many more. As a result, there are distinct challenges in incorporating ESG factors into opportunities in niche, deep value, asset-based

investments. Castlelake strives to incorporate ESG research, best practices and industry standards at various stages of an investment, from due diligence and underwriting through monitoring, measuring and reporting. This includes determining standard ESG factors by industry and business line, as well as segregated ESG key performance indicators, risk factors and metrics to simplify ESG reporting and performance analysis. Except as otherwise provided in a Fund's Offering Documents, Castlelake generally does not expect to subordinate a Fund's investment returns or increase a Fund's investment risks as a result of (or in connection with) the consideration of any ESG factors.

*Risks Associated with Publicly Traded Securities.* The Fund may invest a portion of its total assets in publicly traded securities. Such investments may subject the Fund to risks that differ in type or degree from those involved with privately held investments. Such risks include greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Fund to dispose of such securities and debt at certain times, increased likelihood of shareholder litigation and insider trading allegations against such companies' executives and board members and increased costs associated with each of the aforementioned risks. Moreover, the Fund's investments in securities of publicly traded companies may be sensitive to movements in the stock market and trends in the overall economy and the ability of these companies to refinance debt securities may depend on their ability to sell new securities in the public high yield debt market or otherwise.

*General Economic and Market Conditions.* The private equity industry generally and the success of the Fund's investment activities will be affected by general economic and market conditions, as well as by changes in laws, currency exchange controls, and national and international political and socioeconomic circumstances. A renewed downturn in the U.S. or global economy (or any particular segment thereof) could adversely affect the Fund's profitability, impede the Fund's portfolio investments' ability to perform under or refinance their existing obligations, and impair the Fund's ability to effectively exit its portfolio investment on favorable terms. Any of the foregoing events could result in substantial or total losses to the Fund in respect of certain portfolio investments, which losses will likely be exacerbated by the presence of leverage in a portfolio investment's capital structure.

*Deterioration of Credit Markets May Affect Ability to Finance and Consummate Investments.* General fluctuations in interest rates and the market prices of securities and other assets may adversely affect the value of the Fund's investments. Instability and volatility in interest rates and the securities markets may also increase the risks inherent in the Fund's investments. A deterioration of the global credit markets, any possible future failures of financial services institutions or a significant rise in market perception of counterparty default risk will likely significantly reduce investor demand and liquidity for investment-grade, high-yield and senior bank debt, which in turn is likely to lead some banks and other lenders to be unwilling or significantly less willing to finance new investments or to only offer financing for investments on less favorable terms than had been prevailing in the past. The Fund's ability to generate attractive investment returns may be adversely affected to the extent the Fund is unable to obtain favorable financing terms for its investments. In the event that the Fund is unable to obtain debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, the Fund may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned. In addition, a deterioration of the credit markets may require the Fund to post margin or other collateral to support financing or its hedging positions.

*Economic, Social and Political Conditions.* Consumer, corporate and financial confidence may be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises or other sources of political, social or economic unrest. Such erosion of confidence may lead to or extend a localized or global economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, in an uncertain environment or economic downturn may have an adverse effect on the economy generally and on the ability of the Accounts to execute their respective strategies. This may slow the rate of future investments and transactions by the Accounts and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn may have an adverse effect upon the investments of the Accounts. Similarly, legislative acts, rulemaking, adjudicatory or other activities of the United States Congress, the SEC, the Federal Reserve Board, the NYSE, FINRA or other governmental or quasi-governmental bodies, agencies and regulatory organizations may make investments less attractive. Joseph R. Biden Jr. won the 2020 United States presidential election, and the Democratic Party took narrow control of the U.S. Senate in January 2021 (in addition to its control of the U.S. House of Representatives). The Biden Administration has enacted changes, and may seek to enact further changes, to numerous areas of law and regulations that were, and are currently, in effect. Any such changes could significantly impact the Funds, or the portfolio investments made by the Funds. Specific legislative and regulatory proposals discussed during President Biden's election campaign and more recently that might materially impact the Funds include, but are not limited to, changes to trade agreements, immigration policy, import and export regulations, tariffs and customs duties, energy regulations, income tax regulations and the federal tax code, public company reporting requirements, and antitrust enforcement.

Changes in federal policy, including tax policies, and at regulatory agencies occur over time through policy and personnel changes following elections, which lead to changes involving the level of oversight and focus on the financial services industry or the tax rates paid by corporate entities. The nature, timing and economic effects of potential changes to the current legal and regulatory framework affecting financial institutions under the Biden administration remain highly uncertain. Future changes may adversely affect the Funds' operating environment and therefore the Funds' business, financial condition and results of operations.

There can be no assurance that any changes in laws, regulations or governmental policy will not have an adverse impact on the Funds and their investments, including the ability of the Funds to execute their investment objectives and to achieve attractive returns.

*Epidemic Diseases; COVID-19 Pandemic.* There is an ongoing outbreak of a highly contagious form of coronavirus ("COVID-19"), which the World Health Organization declared a global pandemic. Continued increases in reported cases of COVID-19 as well as outbreaks of Severe Acute Respiratory Syndrome, Ebola, H1N1, Zika, measles or other epidemic diseases such as avian influenza, swine flu or the fear of such events, have in the past and may in the future prompt additional restrictions and precautionary measures to be put in place, which could be expected to adversely impact global commercial activity and contribute to significant volatility in equity and debt markets. COVID-19 is currently having an adverse impact on worldwide air travel, supply chains and the global economy. The global impact of the outbreak is continually evolving, and many countries and businesses have reacted by instituting mandatory or voluntary quarantines and travel prohibitions and restrictions. Such measures, as well as the general



uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on the aviation, transportation, hospitality, tourism and other industries. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess.

The outbreak of COVID-19 has caused a worldwide public health emergency with a substantial number of hospitalizations and deaths and has contributed to significant economic damage. As vaccines for COVID-19 have been developed the potential impacts, including a global, regional or other economic recession, are uncertain and difficult to assess. Even if the spread of the COVID-19 virus itself is substantially contained and economies are able to “re-open,” it will be difficult to assess what the longer-term impacts of an extended period of unprecedented economic dislocation and disruption will be on future macro- and micro-economic developments, the health of certain industries (including the airline industry) and businesses, and commercial and consumer behavior. While some U.S. states and certain countries have begun to ease pandemic prohibitions and restrictions, the impact of COVID-19 remains uncertain as the COVID-19 virus continues to spread, the number of infections continues to increase in certain areas and certain experts warn the public of a continued waves of infections as businesses “re-open.”

In spite of the fact that COVID-19 vaccines have been developed and are being distributed, the situation surrounding the COVID-19 pandemic remains fluid. Due to the phased rollout by the Centers for Disease Control and Prevention, or CDC, and delays in distribution of the COVID-19 vaccine and potential resurgences in COVID-19 infections, the Advisor cannot reasonably estimate the period of time that the COVID-19 pandemic and related market conditions will persist, the extent of the impact they will have on the Funds’ results of operations, financial condition and liquidity, or the pace or extent of any subsequent recovery.

The failure of COVID-19 vaccines, including to the extent they are not effective against any COVID-19 variants, significant unplanned adverse reactions to the vaccine, politicization of the vaccine or general public distrust of the vaccine could have an adverse effect on the Funds’ business, results of operations, financial condition and prospects. The ultimate extent of the impact of the COVID-19 outbreak on the Funds’ financial positions will continue to depend significantly on future developments, including the speed of distribution and efficacy of the COVID-19 vaccines, the extent they are not effective against any COVID-19 variants, significant unplanned adverse reactions to the vaccines, politicization of the vaccines or general public distrust of the vaccines.

COVID-19 and the resulting changes to global businesses and economies likely will adversely impact the business and operations of Castlelake and its affiliates, the Fund’s investments and their respective affiliates. Certain businesses and activities may be temporarily or permanently halted as a result of government or other quarantine measures, voluntary and precautionary restrictions on travel or meetings and other factors, including the potential adverse impact of COVID-19 on the health of key personnel. The extent of the impact of COVID-19 will depend on many factors, including the duration and scope of the resulting public health emergency, the extent of any related restrictions implemented, the impact of such public health emergency on goods and services, investor liquidity, consumer confidence and levels of economic activity, and the extent of its disruption to important global, regional and local economic markets, all of which are highly uncertain.

Further, the COVID-19 pandemic, as well as the resulting economic impact, has had a negative effect on the ability of tenants to pay rents and borrowers to make timely payments on mortgage loans. As a result,

governmental bodies have approved, among other initiatives, measures that could compel lenders to offer payment holidays, approve forbearance requests received from borrowers or refrain from exercising remedies, including foreclosure or eviction, as a result of the COVID-19 pandemic. However, recently, the nationwide eviction moratorium implemented by the U.S. Centers for Disease Control and Prevention (the “CDC”), which had been in place since March 2020, expired on July 31, 2021 following a decision issued by the U.S. Supreme Court on June 29, 2021 in *Alabama Association of Realtors v. Department of Health and Human Services*, in which the U.S. Supreme Court held that the CDC lacked congressional authority to continue to extend the moratorium beyond July 31, 2021. Notwithstanding the foregoing, it remains unclear whether the U.S. Congress will pass further legislation enabling the reinstatement of a nationwide eviction moratorium, and some states have passed local laws implementing temporary eviction moratoriums beyond July 31, 2021. As a result, there can be no assurance that Funds or any of their affiliates, whether acting as lenders or servicers, will not offer or approve, or be compelled by governmental authorities to offer or approve, payment holidays or forbearance requests or other remedies to borrowers or other persons affected by COVID-19. Conversely, the expiration of the CDC’s nationwide eviction moratorium could potentially leave many tenants who are behind on their rent at risk of being evicted from their homes. The result of any such evictions on the United States and global economy is unclear and could negatively impact the Funds’ investments, particularly with respect to any investments in consumer credit or residential mortgages and may leave tenants with less cash flow to pay down other types of consumer debt.

*Government Response and Consumer Protection.* As a result of the COVID-19 pandemic, certain governmental authorities, including federal, state or local governments, could enact, and in some cases already have enacted, laws, regulations, executive orders or other guidance that allow obligors and/or consumers to forego making scheduled payments for some period of time, require modifications to receivables by banks, lenders and other institutions (e.g., waiving accrued interest or late payment fees) and/or preclude creditors from exercising certain rights or taking certain actions with respect to collateral, including with respect to repossessions, foreclosures and evictions. These and other consumer protection initiatives could affect the performance and value of the Funds’ investments.

Further, the COVID-19 pandemic, as well as the resulting economic impact, is expected to continue to have a negative effect on the ability of tenants and lessees to pay rents and other obligations and borrowers to make timely payments of principal and interest. As a result, governmental bodies have approved, among other initiatives, measures that could compel lenders to offer payment holidays, approve forbearance requests received from borrowers or refrain from exercising remedies, including foreclosure or eviction, as a result of the COVID-19 pandemic. There can be no assurance that the Funds, whether acting as lenders or servicers, will not offer or approve, or be compelled by governmental authorities to offer or approve, payment holidays or forbearance requests or other remedies to borrowers or other persons affected by COVID-19.

*United Kingdom Exit from the EU.* After several iterations, the European Commission and the United Kingdom’s negotiators reached agreement on the terms of the United Kingdom’s withdrawal from the EU, and these terms have been approved by the United Kingdom Parliament and the relevant EU bodies. The United Kingdom formally left the EU on January 31, 2020. While it is currently expected that many of the existing EU rules will continue to apply in the United Kingdom, significant uncertainty remains.

The future application of EU-based legislation to the Funds in the United Kingdom will depend, among other things, on how the United Kingdom continues to negotiate its relationship with the EU. There can

be no assurance that any renegotiated laws or regulations will not have an adverse impact on the Funds and their investments.

The legal, political and economic uncertainty generally resulting from the United Kingdom's exit from the EU may adversely affect both EU and United Kingdom-based businesses. This uncertainty may also result in an economic slowdown and/or a deteriorating business environment in the United Kingdom and in one or more EU Member States.

*Alternative Investment Fund Managers Directive.* The EU Alternative Investment Fund Managers Directive (the "AIFMD"), as implemented in each member state of the European Economic Area ("EEA") and as implemented and retained by the United Kingdom following its departure from the EU, regulates the activities of certain private fund managers undertaking fund management activities or marketing fund interests to investors within the EEA, and the United Kingdom respectively.

To the extent that a Fund is actively marketed to investors domiciled or having their registered office in the EEA or the United Kingdom: (i) the Fund and Castlake will be subject to certain reporting, disclosure and other compliance obligations under the AIFMD, which will result in the Fund incurring additional costs and expenses; (ii) the Fund and Castlake may become subject to additional regulatory or compliance obligations arising under national law in certain EEA jurisdictions or the United Kingdom, which would result in the Fund incurring additional costs and expenses or may otherwise affect the management and operation of the Fund; (iii) Castlake will be required to make detailed information relating to the Fund and its investments available to regulators and third parties; and (iv) the AIFMD will also restrict certain activities of the Fund and Castlake in relation to EEA or United Kingdom portfolio companies, including, in some circumstances, the Fund's ability to recapitalize, refinance or potentially restructure an EEA portfolio company within the first two years of ownership, which may in turn affect operations of the Fund generally. In addition, it is possible that some EEA jurisdictions will elect to restrict or prohibit the marketing of non-EEA funds to investors based in those jurisdictions, which may make it more difficult for a Fund to raise its targeted amount of investor capital commitments.

*EEA Risks.* In addition to specific national concerns, the EEA is continuing to be subject to instability in the aftermath of a collective debt crisis. Ongoing concerns regarding the sovereign debt of various EEA countries, including the potential for investors to incur substantial write-downs, reductions in the face value of sovereign debt and/or sovereign defaults, as well as the possibility that additional countries may leave the EU, or the EEA create risks that could materially and adversely affect the Fund's investments. The consequences of any sovereign default would likely be severe and wide-reaching, including significant exchange rate volatility or even an abolition of the Euro. This could have a severe negative impact on the financial and other markets, not only within Europe but globally and could result in the Fund's inability to successfully carry out its investment program, especially with respect to European investments.

The EEA is also subject to severe geopolitical pressures in light of the ongoing refugee resettlement crisis. Investor confidence in other EU member states has been severely impacted, threatening capital markets throughout the EEA.

## Investment Risks

*Broad Investment Mandate.* A purchaser of interests must rely upon the ability of the Fund and Castllake to identify, structure and implement investments consistent with the Funds' overall investment objectives and policies at such times as they determine. Except as set forth in the Funds' Offering documents, there are no material limitations on the instruments, markets or countries in which the Fund may invest or the specific investment strategies that may be employed on behalf of the Fund. The Fund may make investments throughout the capital structure such as mezzanine securities, senior secured debt, bank debt, unsecured debt, convertible bonds and preferred and common stock and across asset classes such as real estate, public equity, structured equity, minority private equity, commodities and credit. The Fund may make equity, credit and/or debt investments that do not involve control or influence over the underlying entity in which the Fund invests. Additionally, the Fund will be permitted to invest (and may actually invest) in any number of companies and assets operating in a wide range of industries, geographies or activities. Castllake may pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate. Castllake may pursue investments outside of the industries and sectors in which it has previously made investments or has internal operational experience.

*Aircraft and Aircraft Operating Leases.* Certain of the Accounts acquire direct or indirect ownership interests in aircraft and related engines which are leased to airlines, leasing companies or other operators or owners, and in some circumstances are not currently leased. The aircraft leasing market is affected by various cyclical and other factors that are not within the control of Castllake such as: (i) interest rates; (ii) the availability of credit; (iii) fuel costs and general economic conditions affecting lessee operations; (iv) manufacturer production level; (v) passenger demand; (vi) retirement and obsolescence of aircraft models; (vii) manufacturers merging or exiting the industry or ceasing to produce aircraft types; (viii) re-introduction into service of aircraft previously in storage; (ix) governmental regulation; (x) air traffic control infrastructure constraints (xi) the particular maintenance and operating history of aircraft and engines; (xii) the number of operators using a type of aircraft; (xiii) import restrictions; and (xiv) existing supply of parked or grounded aircraft. The availability of commercial aircraft for lease or sale has periodically experienced cycles of oversupply and undersupply, producing sharp decreases and increases in aircraft values and lease rates. Aircraft leasing is subject to lessee credit risk, default and market related events or other occurrences that could increase or decrease the demand for certain models of aircraft and related engines.

In addition to general industry factors that may affect aircraft values and lease rates, the value of specific aircraft will depend on a number of other factors that are not within the control of Castllake, such as the particular maintenance and operating history of the aircraft, the number of operators using the type of aircraft and the supply of such type of aircraft, whether the aircraft is subject to a lease and any regulatory and legal requirements that must be satisfied before the aircraft can be sold. Values of aircraft may be adversely affected by changes in the competitive and financial position of the relevant commercial aircraft manufacturer, by the withdrawal of such manufacturer from that market or by unexpected manufacturing defects that may surface subsequently.

A significant threat to used commercial aircraft values and lease rates is the supply effects of the significant numbers of new aircraft ordered at discounted prices. Despite the cyclically high demand for aircraft experienced over the last few years and the significant consolidation in the aircraft manufacturing industry, competition between Boeing and Airbus has resulted in decreases in the price of new aircraft

when adjusted for inflation, which in turn has led airlines and others to order increasing quantities of new aircraft. The displacement effect of new aircraft will depress used aircraft values and lease rates, particularly in geographic regions where there is currently perceived to be a significant excess of commercial aircraft capacity. Decreases in the values and rental rates achievable on used commercial aircraft as a result of the above factors may have a material adverse effect on the Fund's operations and cash flows.

Ultimately, the profitability of aviation assets will depend on the condition in which the aviation asset is returned to the owner or lessor (e.g., the Fund). The Fund may enter into lease agreements that specify re-delivery conditions with respect to major components including the airframe, engines, landing gear, and auxiliary power unit. Accordingly, the compliance of operators and airlines with re-delivery conditions will determine the value and marketability of the aircraft. If any lessee fails to deliver complete and accurate records of leased aviation assets upon re-delivery of such aviation assets, the Fund may be unable re-lease such aviation assets to operators and airlines because airworthiness requirements could prohibit the use of aircraft containing such aviation assets that do not have complete documentation. In some cases, the lessee will pay a security deposit that is refundable upon the expiration of the lease; provided that all re-delivery conditions are met, and that the lessee has not defaulted under the lease. Also, certain lessees may be required to make periodic maintenance reserve payments to the lessor based on the number of hours or cycles the aircraft or engine has accrued.

The lessee may, subject to the lessee paying monthly maintenance reserves to the lessor, after maintenance is performed on the leased assets and the lessee has paid the maintenance performer for the work performed, then request a maintenance payment from the lessor to cover part or all of the cost of scheduled maintenance. Upon the expiration of the lease, an amount equal to any remaining maintenance reserves are typically retained by the lessor. In any event, there is the risk that these reserves will not be sufficient to cover maintenance costs and expenses incurred by the Fund once the asset is returned.

The Funds may enter into lease agreements that specify re-delivery conditions with respect to aircraft records and major components including the airframe, engines, landing gear, and auxiliary power unit. The compliance by the lessee with re-delivery conditions will determine the value and marketability of the aircraft. In particular, the Fund may be unable to re-lease such assets to another lessee if complete aircraft records are not provided at redelivery, because incomplete records may render an asset unairworthy.

*Aircraft Lease Receivables ("ALRs").* Fund investments in airline/aircraft assets may include ALRs. ALRs are asset-backed securities that are generally structured as pass-through trusts. The aircraft is sold to the trust which leases it to the airline lessee. Unlike receivables backed by loans or interest rates, however, ALRs may entail a higher risk because of the nature of the underlying assets, which are expensive to maintain and operate and are difficult to sell. In addition, aircraft are subject to many laws in different jurisdictions, and the repossession of aircraft from defaulting lessees may be difficult and costly.

*Enhanced Equipment Trust Certificates ("EETCs").* Although any entity may issue EETCs, to date, U.S. airlines are the primary issuers. An airline EETC is an obligation secured directly by aircraft or aircraft engines as collateral. EETCs tend to be less liquid than bonds. Other asset-backed securities may be collateralized by the fees earned by service providers. The value of asset-backed securities may be substantially dependent on the servicing of the underlying asset pools and therefore is subject to risks

associated with the negligence of, or defalcation by, their servicers. In certain circumstances, the mishandling of related documentation also may affect the rights of the security holders in and to the underlying collateral. The insolvency of entities that generate receivables or that utilize the assets may result in added cost and delays in addition to losses associated with a decline in the value of the underlying asset.

**Pre-Delivery Payments (“PDP”).** The Fund may finance PDPs, which are progress payments made by aircraft purchasers to manufacturers while new aircraft are being built. Because PDP payments are often used by aircraft manufacturers as working capital for completion of the aircraft, financing PDPs pose the risk that the underlying aircraft is not ultimately manufactured, that a project is delayed or that the purchaser does not take delivery. Further, such transactions can give rise to certain conflicts of interest, as described in Item 10 of this brochure.

**Risk of Aircraft Valuations.** Protection is provided to pooled aircraft asset-backed deals and EETCs in the form of overcollateralization. A typical loan-to-value ratio (“LTV”) of the EETCs is lower than that of a pooled aircraft lease securitization-like vehicle for a given rating level. Although both asset classes are exposed to the risk of declining aircraft values, the structure of the pooled aircraft lease transactions is more resilient to short-term shocks and recessions. EETCs are more exposed to market value risk whereas pooled aircraft lease financing transactions are more exposed to base value risk. Although EETCs are structured with liquidity reserves that can cover interest payment for 18 months while an aircraft is being marked for sale, the risk in the current environment is that the stress on aircraft values will keep market values below base values for an extended period. For EETCs, this effect is partially offset by newer collateral and lower LTVs. Many investors have mistakenly assumed that these lower LTVs are a sign of more conservative structuring of EETCs. This is not so; the lower LTVs associated with EETCs are warranted due to the reliance of these structures on realizable asset value.

**Controls on Investment; Repatriation Limitation.** In the course of sale of the aircraft of the Fund or a restructuring of the aircraft portfolio, it is typically necessary to transfer the aircraft or change the registration of aircraft or transfer substantial amounts of capital from one jurisdiction to another in the context of such events. In some jurisdictions, such transfer, or the transfer or repatriation of capital or the repossession of the aircraft may be or may become legally impaired or may be subject to approval by local authorities.

**Effects of Natural Disasters.** Air travel can be disrupted, sometimes severely, by the occurrence of natural disasters and other natural phenomena. For example, the spread of volcanic ash in Europe in early 2010, the tsunami in Japan and flooding in Thailand in 2011 and the damage caused by Hurricanes Florence and Michael, primarily in the United States and Central America, in 2018 caused the closure of airports and flight cancellations throughout the affected areas. The airline industry incurred substantial losses from these disruptions and any such disruptions could negatively affect the Fund’s ability to make distributions to investors.

**Aircraft Mortgage Debt.** The Funds may invest in various forms of aviation related debt, including ALRs, EETCs, aircraft asset-backed securities, direct or structured loans and private placements or bank loans secured by aircraft or other aviation assets (together referred to as “aircraft mortgage debt”). Investing in aircraft mortgage debt entails many of the same risks as investing in aircraft directly. However, there are several additional risks, including the complicated structures involved in aircraft mortgage debt and

the fact that in general, unlike if the Funds were to own an aircraft, the Fund generally will not have a controlling position with respect to the aircraft when it invests in aircraft mortgage debt.

Aircraft mortgage debt tends to be less liquid than many other types of debts, such as bonds, and such debt is generally not actively traded on any exchange. Therefore, should the Funds seek to sell any investment in aircraft mortgage debt, the Funds may not be able to achieve, in a timely manner or at all, a price that represents what Castlelake believes is the value of the investment.

*Aviation Debt.* Certain of the Funds' investments may consist of providing financing to airlines, leasing companies and other industry participants, including through loans, securities and/or other instruments, or interests in pools of securities and/or other instruments that are subordinated or may be subordinated in right of payment and ranked junior to senior securities and/or instruments issued by, or loans made to, airlines. Such investments in a borrower may be at levels of the capital structure that reflect a greater possibility that adverse changes in the financial condition of the borrower or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings in the aviation industry), or both, may impair the ability of the borrower to make payment of principal and interest. Some borrowers may be highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. Although subordinated debt is senior to common stock and other equity securities in the capital structure, it may be subordinated to large amounts of senior debt and is often unsecured.

Furthermore, financings may be made to Borrowers that are airlines or other similar participants in the aviation finance or lease markets where the underlying collateral securing the debt is not aviation assets. Although in such cases Castlelake would generally seek an airline guarantee or similar credit support from a participant in the aviation finance or lease markets, there can be no assurance that such guarantee or similar credit support will be obtained.

The ability of subordinated debt holders to influence a borrower's affairs, especially during periods of financial distress or following an insolvency, is likely to be substantially less than that of senior creditors. For example, under terms of subordination agreements, senior creditors are typically able to block the acceleration of the debt or other exercises by the subordinated creditors of their rights. Accordingly, the Funds may not be able to take the steps necessary to protect its investments in a timely manner or at all. Further, the unsecured debt in which the Funds may invest may not be protected by financial covenants or limitations upon additional indebtedness, could have limited liquidity and may not be rated by a credit rating agency.

Under certain circumstances, the Fund may be offered an opportunity to make an investment in an airline that is expected to lease or purchase aircraft from one or more of the other funds, or in an airline that has already leased or purchased, or concurrently will lease or purchase, aircraft from one or more of the other funds or has borrowed money from one or more of the other funds in the same or other parts of the capital structure. As a result, Castlelake, the Fund and/or the other funds may have conflicting interests, including in negotiating the terms of such financing and lease or purchase agreements. In negotiating the price of the financing, the rate of interest or stated dividend yield of such securities, the nature of the covenants and other terms and conditions of such securities, the other funds may have interests that conflict with those of the Fund. In that regard and otherwise, actions may be taken by the other funds and/or Castlelake that are adverse to the Fund. Such conflicts may also exist in the negotiations of amendments or waivers or in a workout or bankruptcy. It is possible that in a bankruptcy proceeding, the

Fund's interests may be adversely affected by virtue of the other funds' involvement. It may not be feasible for Castlelake to reconcile the conflicting interests of the Fund and the other funds in a way that protects the Fund's interests.

Furthermore, as further described in "Services and Other Fees" (i) the Fund may, alongside one or more other funds, gain exposure to underlying assets through lending to, or acquiring debt and/or equity interests in, any platform, warehouse and/or securitization-like vehicle or facility, including by contributing, or committing to contribute, assets, investments and/or cash consideration to such facilities or vehicles in exchange for interests therein, and (ii) the Fund and other funds may indirectly participate in certain investments through one or more warehouse facilities and collateralized loan obligations (a "CLO") (to the extent that a CLO is issued with respect to such investments).

*Aviation Mezzanine Debt.* Certain of the Fund's investments may consist of providing mezzanine financing to airlines, including through loans, securities and/or other instruments, or interests in pools of securities and/or other instruments that are subordinated or may be subordinated in right of payment and ranked junior to senior securities and/or instruments issued by, or loans made to, airlines. Mezzanine investments in an airline often reflect a greater possibility that adverse changes in the financial condition of the airline or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings in the aviation industry), or both, may impair the ability of the airline to make payment of principal and interest. Some airlines may be highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. Although subordinated debt is senior to common stock and other equity securities in the capital structure, it may be subordinated to large amounts of senior debt and is often unsecured.

The ability of subordinated debt holders (such as the Fund) to influence an airline's affairs, especially during periods of financial distress or following an insolvency, is likely to be substantially less than that of senior creditors. For example, under terms of subordination agreements, senior creditors are typically able to block the acceleration of the mezzanine debt or other exercises by the subordinated creditors of their rights. Accordingly, the Fund may not be able to take the steps necessary to protect its investments in a timely manner or at all. Further, the unsecured debt in which the Fund may invest may not be protected by financial covenants or limitations upon additional indebtedness, could have limited liquidity and may not be rated by a credit rating agency.

Under certain circumstances, the Fund may be offered an opportunity to make a mezzanine investment in an airline that is expected to lease or purchase aircraft from one or more of the other funds, or in an airline that has already leased or purchased, or concurrently will lease or purchase, aircraft from one or more of the other funds or has borrowed money from one or more of the other funds in the same or other parts of the capital structure. As a result, Castlelake, the Fund and/or the other funds may have conflicting interests including in negotiating the terms of such mezzanine and/or other financing and lease or purchase agreements. In negotiating the price of the mezzanine and/or other financing, the rate of interest or stated dividend yield of such securities, the nature of the covenants and other terms and conditions of such securities, the other funds may have interests that conflict with those of the Fund. In that regard and otherwise, actions may be taken by the other funds and/or Castlelake that are adverse to the Fund. Such conflicts may also exist in the negotiations of amendments or waivers or in a workout or bankruptcy. It is possible that in a bankruptcy proceeding, the Fund's interests may be adversely affected by virtue of the other funds' involvement. It may not be feasible for Castlelake to reconcile the conflicting interests of the Fund and the other funds in a way that protects the Fund's interests.



*Aviation Credit Risk.* Lending and acquiring debt have significant credit risk with respect to the ability of the borrower to make interest and principal payments on the loan or security as they become due. Given that the Fund may consider opportunities to gain additional exposure to underlying aircraft assets through lending to or acquiring debt from or issued by leasing companies or airlines, in such cases, if the borrower fails to pay interest, the Fund's income might be reduced. If the borrower fails to repay principal, the value of that investment and the value of the Fund might be reduced. The Fund's interests in loans or in the debt of a leasing company or airline are subject to risks of default. The Fund may be exposed to losses resulting from default. In any reorganization or liquidation proceeding relating to a leasing company or airline in which the Fund has made loans to, the Fund may lose all or part of the amounts advanced to such leasing company or airline. The Fund cannot guarantee the adequacy of the protection of the Fund's interests, including the validity or enforceability of the loan. Furthermore, the Fund cannot assure that other claims may not be asserted that might interfere with enforcement of the Fund's rights. In the event of a default, the Fund or an affiliate of the Fund may assume direct ownership of the underlying assets of the leasing company or airline. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the Fund. Any costs or delays involved in a default, or a liquidation of the underlying asset will further reduce the proceeds and thus increase the loss.

Lending and acquiring debt also have significant liquidity risks and market value risks since they are generally not publicly traded in organized exchange markets but are traded by banks and other institutional investors engaged in loan syndications. Because loans are privately syndicated and loan agreements are generally privately and heavily negotiated and customized and subject to offering restrictions, loans are not purchased or sold as easily as other investments. Due to their illiquid nature, the Fund may not be able to dispose of its interest in a loan to or in the debt of a leasing company or airline in a timely manner and/or at a fair price. The inability to dispose of a loan could result in losses to the Fund, including the loss of its entire investment. If the leasing company or airline is in default or its debt is highly leveraged, such debt may be less liquid than other debt. If the Fund voluntarily or involuntarily sold its interests in those types of debt instruments, it might not receive the full value it expected. In particular, these risks could arise from changes in the financial condition or prospects of the leasing companies or airlines whose borrowings underlie the Fund's investments, changes in national or international economic or political conditions (including acts of war, terrorism or other calamity or crisis), adverse conditions in national or global financial or capital markets, or changes in laws or regulations affecting the aviation industry, fiscal policies or political conditions of countries in which investments are made.

*Aviation Regulation.* The aviation industry is highly regulated in the United States and internationally and subject to regulatory change. While the Funds intend to make investments that comply with relevant laws and regulations, certain aspects of the Funds' operations may not have been subject to judicial or regulatory interpretation. An adverse review or determination by any one of such authorities, or an adverse change in the regulatory requirements, could have a material adverse effect on the Funds' investments. Various regulators in the US and globally may introduce legislative proposals that would effect major changes in the aviation industry. The aviation industry is often subject to significant regulatory changes. It is not clear at this time what changes, if any, will occur and what effect any proposals would have on the aviation industry.

*International and EU Regulatory and Market Initiatives on Emissions from Aviation.* Castlelake acknowledges the sustainability risks involved in investing in the aviation sector, including the regulatory obligations and financial burdens imposed by EU regulation surrounding carbon emissions specific to the aviation sector. These currently include Directive 2008/101/EC which sought to include aviation activities in the system for greenhouse gas emission allowance trading (“EU ETS”), which imposes both an annual ‘cap’ on emissions and an obligation on market participants to monitor, report and verify emissions in respect of flights within the EEA. Castlelake acknowledges these obligations and the impact such obligations may have on the performance of the fund when making investments in that sector, particularly in light of the rising price of carbon credits and offsets in recent years.

Pursuant to the EU Green Deal, there is potential for increased EU regulation to be implemented impacting the aviation sector. Proposals currently include a revision to the Energy Taxation Directive (Directive 2003/96/EC), which proposes to end the tax exemption for aviation fuel, and the ReFuelEU Aviation Initiative, which could mandate the percentage of sustainable aviation fuel on a per flight basis. In addition, proposed changes to the EU ETS include a decrease in the free allocation of carbon allowances and an expansion of the scope of the EU ETS to be potentially applicable to flights into and from the EEA.

Separately, the global market-based mechanism (GMBM) known as the Carbon Offsetting and Reduction Scheme for International Aviation aims to stabilize CO<sub>2</sub> emissions in 2019 and 2020 levels by requiring airlines to offset the growth of emissions above 2020 levels by (i) monitoring emissions on all international routes and (ii) purchasing eligible emission units generated by projects that reduce emissions such as those for the generation of renewable energy.

Castlelake continues to monitor the complex and developing international and European regulatory and market initiatives governing the management of emissions from aviation.

*Effect of Airworthiness Directives and Operating Restrictions.* The maintenance and operation of aircraft and engines are strictly regulated in the United States by the FAA in the U.S. and similar governmental authorities in foreign jurisdictions. These rules and regulations govern such matters as certification, registration, inspection, operation and maintenance procedures, personnel certification and record keeping. Periodically, the FAA issues airworthiness directives requiring changes to aircraft or engine maintenance programs and procedures. Future regulatory changes may also increase the cost of operating and/or maintaining aircraft and engines, which may adversely affect their residual value and the profitability of the Fund’s investments, as can the failure of a lessee to comply with the maintenance provisions as set forth in the lease. The cost of compliance with such requirements may be significant.

*Requirement for Certain Licenses and Approvals.* Some lease or sale transactions may require that the Fund and/or the lessee obtain licenses, consents or approvals from governmental or other regulatory authorities with respect to the importing, exporting and deregistration of aircraft. Subsequent changes in applicable law or administrative practice may increase such requirements. In addition, a governmental consent, once given, might be withdrawn or expire without renewal. The Fund may have difficulty acquiring the licenses, consents or approvals needed in connection with aircraft leasing or sale. Any of these events could adversely affect the Fund’s ability to lease or sell aircraft and could negatively affect the Fund’s ability to make distributions to investors.

*Registration of Aircraft.* Appropriate registration of aircraft is a material obligation of both the lessee and the holder of title of an aircraft and an indispensable precondition for operating the aircraft. If an aircraft were to be operated without a valid registration, the lessee operator or, in some cases, the owner or lessor (such as the Fund) might be subject to penalties, which could constitute or result in a lien being placed on such aircraft. Lack of registration could also restrict the ability of the owner or lessee to operate the aircraft, negatively affect insurance premiums or cause the loss of insurance. The foregoing adverse effects could cause lessees to incur higher costs and to generate lower net revenues, resulting in an adverse impact on their financial conditions, affecting lessees' ability to make rental and other lease payments to the Fund.

*Regulations Relating to Climate Change, Noise Restrictions, and Greenhouse Gas Emissions.* Regulations relating to climate change, noise restrictions and greenhouse gas emissions may have a negative effect on the airline industry and, in turn, the Fund. Governmental regulations regarding aircraft and engine noise and emissions levels apply based on where the relevant aircraft is registered and operated. United States and certain other jurisdictions regulate emissions of certain greenhouse gases, such as nitrogen oxide, as well as noise levels which applies to engines manufactured or certified on or after a certain date. Even if a jurisdiction does not require any phase-out of aircraft that meet the older standards applicable to engines manufactured or certified prior to the effective date of the new regulations, there is no guarantee that there will not be any impositions of operating limitations on aircraft that is not consistent with these new standards set in the future. In addition, concerns over global warming could result in more stringent limitations on the operation of aircraft powered by older, noncompliant engines, as well as newer engines. European countries generally have relatively strict environmental regulations that can restrict operational flexibility and decrease aircraft productivity. Such regulation could possibly distort the air transport market, leading to higher ticket prices and ultimately a reduction in demand for air travel.

In addition, noise, emission and aircraft age regulations could limit the economic life of aircraft, reduce its value, limit the Fund's ability to lease or sell the non-compliant aircraft or, if engine modifications are necessary, require the Fund to make significant additional investments in the aircraft to make it compliant. Compliance with current or future regulations, taxes or duties imposed to deal with environmental concerns could cause lessees to incur higher costs and to generate lower net revenues, resulting in an adverse impact on their financial conditions. Consequently, such compliance may affect lessees' ability to make rental and other lease payments and reduce the value the Fund receives for the aircraft upon any disposition, which could negatively affect the Fund's ability to make distributions to investors.

*Effects of the Aviation Security Act.* The U.S. Aviation and Transportation Security Act (the "Aviation Security Act"), among other things, subjects substantially all aspects of U.S. civil aviation security to federal oversight and mandates enhanced security measures, including: (i) improved flight deck security; (ii) deployment of federal air marshals on flights; (iii) improved security of airport perimeter access; (iv) airline crew security training; (v) augmented security screening of passengers, baggage, cargo, mail, employees and vendors; (vi) improved training and qualifications of security screening personnel; (vii) additional provision of passenger data to U.S. Customs and Border Protection; and (viii) more detailed background checks on passengers and airline and airport personnel. The implementation of the requirement that all checked baggage be screened by explosives detection systems has resulted, and may continue to result, in significant equipment acquisitions by the government and changes to baggage processing facilities and procedures. The changes mandated by the Aviation Security Act have increased costs for airlines providing service in the U.S. have resulted in delays and disruptions to air travel, which have adversely affected, and may to continue to adversely affect, the aviation industry in general. It is expected that the Aviation

Security Act will continue to impose additional costs on the airlines and may adversely impact the performance of the Fund.

*Effect of War or Armed Hostilities and Terrorist Attacks.* War or armed hostilities, or the fear of such events, could reasonably be expected to exacerbate many of the economic problems experienced by the airline industry. In addition, terrorist attacks and attempts have negatively affected the airline industry and fears about future terrorist attacks or other substantial events could continue to negatively affect the airline industry in a variety of ways, including, without limitation: (i) higher costs to the airlines due to the increased security measures and other compliance with new regulatory enactments; (ii) losses in passenger revenue due to terrorism concerns and the inconvenience of additional security measures; (iii) significantly higher costs of insurance coverage for future claims caused by acts of war, terrorism, sabotage, hijacking and other similar perils, and uncertainty as to the extent to which such insurance will continue to be available; and (iv) possible lost revenue stemming from aircraft grounded as a result of terrorists attacks, the economic slowdown, forced shutdowns due to government actions and airline reorganizations. Additional potential problems include increased security restrictions on air travel within the U.S. and elsewhere, increased airline costs for and restricted availability of aircraft insurance and fuel, enhanced security measures, a decline in passenger demand for air travel, increased difficulties in acquiring war risk and other insurance at reasonable costs, and additional lessee restructurings. Should these risks come to pass, there can be no guarantee that the government of the U.S. or any other country will take action to assist the aviation industry.

*General Airline Industry Risks.* The airline business is dependent on several factors. For example, the airline industry has been highly impacted by COVID-19 and it is likely that the outbreak itself, as well as measures undertaken in response to the outbreak and related breakdowns in public confidence in the travel sector, will have substantial impacts on investments by the Funds. Additionally, the business depends on the price and availability of aircraft fuel. Continued periods of high fuel costs, significant disruptions in the supply of aircraft fuel or significant further increases in fuel costs could have a significant negative impact on air carriers' operating results. Certain airlines continue to experience significant operating losses. Union disputes, employee strikes, increased employee costs, employee absences and other labor- related disruptions may adversely affect airlines' operations. The travel industry may be materially adversely affected by the risk of terrorist attacks and continues to face on-going security concerns and cost burdens associated with security. Increases in insurance costs or reductions in insurance coverage may adversely impact airlines operations and financial results. Changes in government regulation could increase airlines operating costs and limit their ability to conduct their business. The airline industry is intensely competitive. It is subject to risk of losses and adverse publicity stemming from any accident involving any of the aircraft and is subject to weather factors and seasonal variations in airline travel, which cause financial results to fluctuate. Any of these factors can affect the value of the Funds' investments.

*Aircraft Accidents.* An aircraft crash, such as the recent Boeing 737 MAX 8 crashes, or other serious accident, could expose the Fund to significant liability and reduce the demand for certain of the Fund's aircraft. In addition, airline operators and/or aviation authorities may ground aircraft due to safety concerns. As a result, the Fund may be forced to bear substantial losses stemming from an accident. For example, airline operators and aviation authorities in the United States, Europe, China, Canada and other countries suspended the use of Boeing's 737 MAX 8 aircraft over concerns about its safety, after an Ethiopian Airlines flight of the same model crashed in March 2019 (shortly after another crash by the same model). The Boeing 737 MAX 9, which has nearly identical design features as the Boeing 737 MAX 8, was also grounded across the globe. Any crash or serious accident involving aircraft that the Fund is expected

to acquire could adversely impact the Fund's business, results of operations and financial condition or create an adverse public perception, which could result in air travelers being reluctant to fly on such aircraft.

Accidents involving aircraft in which the Castlake is not expected to target may also result in increased competition for the Fund's target aircraft, which in turn may limit supply and increase costs for the Fund.

*Asset Backed Debt Vehicles.* The Funds may structure partial exit transactions through establishing asset backed debt vehicles to which some or all certain types of assets will be transferred. The Funds are expected to be issued the most junior tranches of securities in such asset backed debt vehicles, which are typically treated as equity certificates for U.S. federal income tax purposes and are generally unrated or rated below investment grade. Such securities are subordinated to payments of interest and principal on higher-rated securities of the asset backed debt vehicle and will be directly affected by any losses or delays in payment on the related collateral. Interests in asset backed debt vehicles can be considered a levered investment in the underlying collateral of the vehicle because the amount of the investment is significantly below the principal value of the vehicle's equity and below investment grade debt's pro rata portion of the underlying collateral. However, an asset backed debt vehicle's equity and below investment grade debt tranches, due to their subordinated nature, are the first and second tranche, respectively, to absorb trading losses and defaults in the underlying collateral. Therefore, while the levered nature of an asset backed debt vehicle's equity and below investment grade debt tranches increases the cash flow that may be available for distribution, it also increases the exposure to trading losses and defaults, and accordingly, causes returns to be more volatile. Payments on asset backed debt vehicle equity and below investment grade debt tranches may be deferred or eliminated depending on the amount of cash flow generated by the collateral.

Castlake and/or its affiliates will act as collateral manager, servicer, facility manager or similar role with respect to any such vehicles. The fees payable to Castlake and/or its affiliates with respect to any asset backed debt vehicles will generally be structured so that the Funds do not bear such amounts with respect to their ownership in such vehicles (including through credits and/or offset of the management fees payable by the Fund to Castlake by any such amounts), subject in all cases to the terms of the Offering Documents. Multiple Funds may be issued interests in the same asset backed debt vehicles and Funds may purchase interests in such vehicles or other asset backed debt vehicles in the secondary markets, with such interests being of the same or different classes held by other Funds.

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a significant portion of the Funds' investments, and hence, most of the Funds' investments will be difficult to value. The Funds also invest in some assets that are experiencing or are expected to experience severe financial difficulties which may never be overcome. Since the Funds are permitted to make a limited number of investments, and many of the Funds' investments are expected to involve a high degree of risk, poor performance by a few of the investments can have a significant negative impact on the Funds' performance. The Funds' strategies are based, in part, upon the premise that investments will be available for purchase by the Funds at prices which Castlake considers favorable. Further, the Funds' strategies rely, in part, upon local market conditions, and in part, upon the continuation of existing market conditions (including, for example, supply and demand characteristics) or, in some circumstances, upon the assumption or predictions of more favorable market conditions existing at the expected exit. As a result, the Fund may not liquidate an investment at favorable values, or at all, prior to the end of the term of the Funds. No assurance can be given that Funds' investments can be acquired or disposed of at favorable

prices or that the market for such assets will either remain stable or, as applicable, recover or improve, since this will depend upon events and factors outside the control of Castlelake.

*Investments in Undervalued and Distressed Assets.* The Funds often attempt to invest in undervalued and distressed assets, including financial assets such as mortgage servicing rights, transportation assets such as those in aviation, shipping, railroads and rail networks, consumer debt, residential and commercial real estate as well as assets in other industries. The identification of investment opportunities in such assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued or distressed assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in significant losses. Returns generated from undervalued investments of Funds may not adequately compensate investors for the business and financial risks assumed. The Funds may incur substantial losses if the assets which Castlelake believes are undervalued are not in fact undervalued and may be forced to sell such assets at a substantial loss. Such assets may be required to be held for a substantial period of time before realizing their anticipated value. Once purchased, these assets will often require additional ongoing maintenance capital. During this period, a portion of capital of Funds would be committed to the assets purchased, thus possibly preventing the Funds from investing in other opportunities. There can be no assurances that workouts, reorganizations or exits with respect to any distressed or undervalued assets would be successful. Indebtedness may be incurred in connection with such asset acquisitions, which debt would typically be secured by the assets so acquired and typically nonrecourse to the Accounts. The industries in which the Funds invest may be subject to extensive rules and regulations limiting rights or otherwise impacting the risk profile. Castlelake in some instances enters into arrangements with industry specialized management, servicing teams or entities to acquire, manage and dispose of these assets, which typically include fixed payments and/or profit-sharing arrangements with such teams or entities. The failure on the part of Castlelake to select the right management/advisory team for an investment and/or to establish a governance and compensation structure that provides for the appropriate balance of economic incentives to the team and oversight by Castlelake would have a material adverse effect on the investment in such asset class. The failure of Castlelake to provide or secure appropriate servicing of certain investments could also have a material adverse effect on the Fund.

*Lessee Defaults and Other Credit Problems.* The ability of each lessee to perform its obligations under its lease will depend primarily on the lessee's financial condition, which may be affected by factors beyond the Fund's control, including competition, fare levels, air cargo rates, passenger and air cargo demand, operating costs (including the price and availability of jet fuel and labor costs), labor difficulties, economic conditions in the countries in which the lessee operates and governmental regulation of or affecting the air transportation business. Airlines with weaker capital structures, in general, are more likely than well-capitalized airlines to seek operating leases, and, at any point in time, a varying number of lessees may experience payment difficulties. In addition, many lessees are exposed to currency risk due to the fact that they earn revenues in their local currencies and certain of their liabilities and expenses are denominated in U.S. dollars, including lease payments to the Fund. As a result of their poor financial condition, a large portion of lessees over time may consistently be significantly in arrears in their rental payments or maintenance payments. The Fund can give no assurances that lessees will be able to perform their financial and other obligations under future lease agreements. A lessee may also experience periodic difficulties that are not financial in nature, which could impair its performance of its maintenance obligations under a lease agreement. These difficulties may include deferring the performance of scheduled aircraft maintenance. The Fund cannot assure that, in the event that a lessee defaults under a lease, the security deposit paid, or the letter of credit provided by the lessee, if any, will be sufficient to

cover the outstanding or unpaid obligations accrued under the applicable lease agreement or other lessee obligations such as navigational charges and landing and/or airport fees which may give rise to lien rights in favor of applicable creditors. If such amounts are insufficient, the Fund's ability to make distributions to Limited Partners will be adversely impacted.

*Lessee Credit Risk.* Castlake will evaluate the credit risk associated with each of the prospective operators/lessees, and their respective ability to properly maintain the aircraft and comply with the lease. In addition to Castlake's independent assessment of the lessee's credit standing using public information, data provided by the operator, financial institutions, industry periodicals, trade references, and/or regulatory authorities, Castlake will utilize, when it deems appropriate and practicable, credit and rating agency reports and/or research reports published by investment banks to get a better understanding of the operator's financial condition and viability. On the basis of such review, Castlake will assess the credit rating of the operator and weigh that credit evaluation against the asset risk, the lease rate, and the lease structure, in determining whether the operator meets the Fund's investment criteria. Nonetheless, many factors can dramatically and quickly impact an individual airline's viability. These include fuel prices, pandemics, labor disruptions, air crashes, and new or intensified competition. Should a lessee file for a re-organization under bankruptcy statutes, there is the added risk that the lessor/owner may be at least temporarily prohibited from foreclosing on or repossessing its aircraft. Most developed countries, like the U.S. (which affords lessors and other secured parties certain protections and certain rights pursuant to Section 1110 of the Bankruptcy Code), have specific laws that determine how and when a secured party or a lessor in a bankruptcy can repossess an aircraft. Although the process is improving due to the approval of, and certain parties joining, the Cape Town Convention on International Interests in Mobile Equipment and the Protocol to the Convention on International Interests in Mobile Equipment on Matters Specific to Aircraft Equipment, the process can be slow, expensive, and in some instances may result in lost revenue and thus negatively impact the proceeds that would otherwise be received by the Fund.

*Higher Costs Resulting from Lease or Consignment Default.* Repossession of an aircraft after a lessee or consignee default may result in the Fund incurring costs in excess of those incurred with respect to an aircraft returned at the end of the lease or consignment. Those costs include legal and other expenses of court or governmental proceedings (particularly if the lessee or consignee is contesting the proceedings or is in bankruptcy) to obtain possession and/or re-registration of the aircraft and flight and export permissions. Delays resulting from any of these proceedings would also increase the period of time during which the relevant aircraft is not generating revenue pursuant to a lease agreement. In addition, the Fund may incur substantial maintenance or repair costs (that a defaulting lessee has failed to pay) and may need to pay off liens, taxes and governmental charges in order to obtain unencumbered possession and to re-lease the aircraft effectively. The Fund may incur costs in connection with the physical repossession of the aircraft. Any of these costs or delays will adversely impact the returns of the Fund. The rights of the Fund upon a lessee default may be subject to limitations of applicable law, including the need to obtain a court order for repossession of aircraft and/or consents for deregistration or re-export of aircraft. When a defaulting lessee or consignee is in bankruptcy, protective administration, insolvency or similar proceedings, additional limitations may apply. Certain jurisdictions will give rights to the trustee in bankruptcy or a similar officer to assume or reject the lease or consignment or to assign it to a third-party, or will entitle the lessee or consignee, as the case may be, or another third-party to retain possession of the aircraft (without performing all or some of the obligations under the relevant lease or consignment, as the case may be). Accordingly, the Fund may be delayed in or prevented from, or may incur additional

costs including legal costs, enforcing certain of the Fund's rights under a lease agreement or consignment and in selling the affected aircraft. Such delays and costs may adversely impact the returns of the Fund.

*Restructuring of Leases.* Under certain circumstances, including when a lessee is late in making payments or fails to make payments in full under the lease or is subject to an insolvency or reorganization proceeding, the Fund may be requested to restructure a lease. Restructuring may involve anything from a simple rescheduling of payments, a reduction of rental or other payments, or an easing of return conditions upon the termination of a lease, in each case without receiving all or any portion of the past due amounts. If any leases are restructured, the Fund expects that the reduced or deferred rental payments would be payable over all or some part of the remaining term of the lease. The Fund may have no alternative but to agree to such rental reductions in the event no viable substitute lessee is available. The Fund may be unable to agree upon acceptable terms for some or all of the requested restructurings and as a result may exercise its remedies under those leases. If the Fund, in the exercise of its remedies, repossesses the aircraft, the Fund cannot assure that it will be able to re-lease the aircraft promptly or at favorable rates. Restructurings with some lessees might occur in the future. The terms and conditions of possible lease restructurings may result in significant reductions of rental payments and adversely impact the returns of the Fund.

*Lessees in Developing and Emerging Markets.* The Fund may lease the aviation assets to operators and airlines located in countries that have poorly developed economies and legal systems that are more vulnerable to economic and political problems, such as civil disturbances, government instability, nationalization and expropriation of private assets, the imposition of taxes or other charges by governments and significant fluctuations in gross domestic product, interest rates and currency exchange rates. The resulting instability may adversely affect the ability of operators and airlines which operate in these markets to meet their lease obligations, and these operators and airlines may be more likely to default than operators and airlines that operate in developed economies. Further, lessors may have difficulty enforcing their rights under leases in these jurisdictions. These factors may adversely affect the Fund's investments in these jurisdictions and negatively impact the Fund's ability to make distributions to Limited Partners.

*Failure to Appropriately Discharge Aircraft Liens.* In the normal course of business, liens that secure the payment of airport fees and taxes, custom duties, fuel liens, air navigation charges (including charges imposed by Euro-control), landing charges, crew wages, maintenance charges, salvage or other liens ("Aircraft Liens") are likely, depending on the jurisdiction, to attach to the aircraft. Aircraft Liens may secure substantial sums that may, in certain jurisdictions or for limited types of Aircraft Liens (particularly fleet liens), exceed the value of the particular aircraft to which the Aircraft Liens have attached. In some jurisdictions, Aircraft Liens may give the holder thereof the right to detain or, in limited cases, sell or cause the forfeiture of the aircraft. In some cases, it may be difficult to obtain "clear title" to the assets acquired (including all aircraft documentation) unless an expensive title search is undertaken prior to acquisition. Such Aircraft Liens or clouded title could, until discharged, impair the Fund's ability to repossess or sell aircraft. Although the financial obligations relating to these Aircraft Liens are the responsibilities of the lessees, if lessees fail to fulfill their obligations, Aircraft Liens may attach to the Fund's aircraft and ultimately become the Fund's responsibility. In some jurisdictions, Aircraft Liens may give the holder thereof the right to detain or, in limited cases, sell or cause the forfeiture of the aircraft. In such cases, the Fund may find it necessary to pay the claims secured by such liens in order to repossess the aircraft or to obtain the aircraft or engines from a party holding a lien in respect thereof.



*Maintenance of Aircraft During Lease Term; Funding of Maintenance; Maintenance Reserves.* Under most leases, the relevant lessee is primarily responsible for maintaining the aircraft and complying with all governmental requirements applicable to the lessee and the aircraft including operational, maintenance, and registration requirements and airworthiness directives. Failure of a lessee to perform required maintenance with respect to an aircraft during the term of a lease could result in a diminution in value of such aircraft's parts upon termination of such lease. The Fund will not be in possession of any aircraft while such aircraft are subject to leases. A continuous failure by a lessee to meet its maintenance obligations under the relevant lease (i) could result in a grounding of the aircraft; (ii) in the event of a re-leasing of the aircraft, could cause the Fund to incur integration and other costs, which may be substantial, in restoring the aircraft to an acceptable maintenance condition; (iii) could result in a lower rental rate or shorter term under any new lease which the Fund might enter into following repossession of the aircraft; and (iv) would be likely to adversely affect the value of the aircraft. There can be no assurance that the Fund's operational cash flow and available liquidity reserves will be sufficient to fund maintenance requirements, particularly as aircraft age. Actual rental and maintenance payments by lessees and other cash that the Fund receives may be significantly less than projected as a result of numerous factors, including defaults by lessees and the Fund's possible inability to obtain satisfactory maintenance provisions in lease agreements. In some cases, a lessee may be entitled to substitute a letter of credit for maintenance reserve payments. Some leases do not provide for any maintenance reserve payments or letters of credit to be made or pledged, as the case may be, by lessees as security for their maintenance obligations, and there can be no assurance that future lease agreements will contain such requirements. Maintenance reserves may be insufficient to cover the scheduled maintenance expenses they are intended to fund. In addition, maintenance reserves typically cover only certain scheduled maintenance requirements and do not cover all required maintenance and all scheduled maintenance. Also, there can be no assurance that lessees will meet their obligations to pay maintenance reserves or perform required scheduled maintenance. If lessees fail to meet their obligation to fund reserves or perform required scheduled maintenance, the Fund may be required to make such payments which may adversely affect the Limited Partners' investment in the Fund.

*Amortization Risk.* The revenue that will be earned from certain leases may not be sufficient to fully amortize the investment and financing costs related to the underlying aircraft. A wide array of economic factors and regulations may affect the price at which the Fund can dispose of its aviation assets, which, in turn, may reduce the overall rate of return generated by the Fund's investments.

*Liabilities, Loss and Insurance.* Operators and airlines are required under most leases to indemnify the related lessor for, and insure against, liabilities arising out of use and operation of the aircraft, including third-party claims for death or injury to persons and damage to property for which the Fund may be deemed liable. Operators and airlines are also required to maintain public liability, property damage and aircraft hull insurance on the aircraft at agreed upon levels. They are not, however, required to maintain political risk insurance and there are other types of events that may or may not be insurable by an operator or airlines (e.g., direct and/or indirect consequences resulting from seizure of an aviation asset by a government official or regulatory body in connection with alleged or actual illegal activity in respect of such aviation asset in the possession of a lessee irrespective of such lessee's or the lessor's liability therefor). The operators and airlines may, in some instances, have fleet-wide deductibles for liability insurance. Any hull insurance in respect of such claims will generally be paid to the lessee (in some circumstances up to a cap with the balance going to the lessor), in the event of a partial loss of or damage to the aircraft, to effect repairs, unless there is a total loss with respect to the aircraft in which case insurance proceeds are paid to the lessor or, in the case of liability insurance, to each of the insured

parties for indemnification of third-party liabilities. In the event of a total loss, the lessor will usually be entitled to receive insurance proceeds equal to an amount agreed to at the commencement of the lease, and subject to the terms of the applicable lease, the balance of any hull insurance proceeds after deduction for all amounts due and payable by the lessee under such lease, may remain with the lessee. There can be no assurance that insurance of operators and airlines, including any available governmental supplemental coverage, will cover all types of claims that may be asserted against the Fund. Any inadequate insurance coverage, default by an insurer or default by operators and airlines in fulfilling their indemnification or insurance obligations or the lack of political risk insurance will affect the proceeds that would be received by the Fund upon an event of loss under the relevant lease agreement or upon a claim under the relevant liability insurance policy.

*Liability Risk as Lessor.* Section 44112 of Title 49 of the United States Code ("Section 44112") provides that lessors of aircraft or engines generally will not be liable for any personal injury or death, or damage to or loss of property (collectively, "Loss" or "Losses"); provided, that such lessor is not in actual possession or control of the equipment at the time of such Loss. Under common law, the owner of an aircraft or engine may be held liable for injuries or damage to passengers or property, and such damage awards can be substantial. Because certain case law interpreting Section 44112 provides that lessors of aircraft or engines may be liable for Losses, there can be no assurance that the provisions of Section 44112 would fully protect the lessor and the Fund from all liabilities in connection with any Losses that may be caused by any aircraft or engine it owns. Therefore, each lessee typically will be required to indemnify the lessor and/or the Fund for, or insure the lessor or the Fund against, such claims by third parties. Nonetheless, in the event that Section 44112 does not apply in a particular action, there is the possibility that the lessee might not have the financial resources or insurance to fulfill its indemnity obligations. It should be noted, however, that this description is limited to U.S. law, and to the extent that the law in foreign jurisdictions is applicable (e.g., in a jurisdiction where an accident occurs), different rules may apply. For example, certain foreign jurisdictions may impose strict liability upon an owner of an aircraft or an engine. Such liability may apply with respect to claims of passengers, employees or third parties for death, injury and/or damages to public or private property (including consequences of terrorist attacks) or environmental damages. As described above, operators and airlines may be unable or unwilling to indemnify the Fund, resulting in losses to the Fund. The scope and amount of insurance coverage available to airlines for liability to third persons may decrease while the premiums for such third-party risk insurance may simultaneously or otherwise increase. This situation may result in the operators, airlines and/or the Fund not obtaining sufficient insurance coverage to cover all types of claims that may be asserted against the operators and airlines or the Fund. Such insufficient insurance coverage amounts or defaults by operators and airlines in fulfilling their indemnification or insurance obligations or the lack of third-party liability insurance may increase the loss amounts for which the operators and airlines or the Fund are ultimately liable.

Castlelake will typically seek to require lessees to maintain those types of insurance customary and appropriate in the air transportation industry, including liability insurance and aircraft hull insurance. There can be no assurance that lessees' insurance will cover all types of claims that may be asserted against the Fund. Any inadequate insurance coverage, default by an insurer or default by lessees in fulfilling their indemnification or insurance obligations will negatively affect the proceeds that would be received by the Fund, and ultimately, the Partners, upon an event of loss under the respective leases or upon a claim under the relevant liability insurance.

*Effects of Industry Economic Losses and Airline Reorganizations.* The aviation industry as a whole suffered significant losses as a result of deteriorating international economic conditions during the global financial crisis and may again do so in the future. Certain airlines have announced reductions in capacity, services and employee workforce in response to reductions in passenger demands and yields in certain regions. Airlines involved in reorganizations typically undertake substantial fare discounting to maintain cash flows and to encourage continued customer loyalty. Such fare discounting has led to lower yields. In certain regions, bankruptcies, reductions in capacity, labor strikes and slowdowns and reduced demand generally have led to the grounding of significant numbers of aircraft and the negotiated reduction of aircraft lease rental rates which has had the effect of depressing aircraft market values. The permanent or near permanent grounding of aircraft, if concentrated among one or a few aircraft models, may also depress the market values of individual parts since the decreased use of aircraft results in fewer maintenance events (including piece-part replacement) thereby increasing the supply of aircraft parts while simultaneously decreasing the demand for such parts. Reorganizations or liquidations by airlines often lead to the rejection of aircraft leases or the abandonment of aircraft by airlines which would then exacerbate the already depressed aircraft values.

*Effects of Fuel Costs.* Fuel costs represent a major expense to airline operators. Fuel prices fluctuate widely depending primarily on international market conditions, geopolitical and environmental events and currency/exchange rates. Although having declined from historical peaks, fuel prices tend to fluctuate. Significant fuel price increases would materially affect the operating results and profitability of the airlines. Long or short-term fluctuations may (i) affect the ability of operators and airlines to make rental and other lease payments; (ii) result in lease restructurings and aircraft repossessions; (iii) impair the Fund's ability to re-market or otherwise dispose of the aircraft on a timely basis and/or at favorable terms; and (iv) reduce the value received for the aircraft upon any disposition.

*Illiquidity of Investments in Assets.* The Funds invest in assets, loans or securities for which no (or only a limited) liquid market exists or that are subject to legal or other restrictions on transfer. The market prices, if any, for such investments may in fact 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 financing condition of the obligors on the assets. Castlelake may not be able to sell investments when it desires to do so or to realize what it perceives to be their fair value in the event of a sale.

A portion of the investments may consist of securities that are subject to restrictions on resale because they were acquired in a "private placement" transaction or for other reasons including Castlelake's access to material non-public information. In addition, the Funds may hold investments subject to contractual restrictions on transfer. The sale of illiquid assets and restricted securities often requires more time and results in higher brokerage charges and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets.

*Investments in Real Estate.* Castlelake may, from time-to-time, invest in a variety of real estate and related transactions, either as a direct investment or through investment in other entities, including affiliates. Investing in real estate entails certain risks including: the burdens of ownership of real property; local, national and international economic conditions; the supply and demand for properties; the financial condition of tenants, buyers and sellers of properties; changes in interest rates and the availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable; changes

in environmental laws and regulations, planning laws and other governmental rules and fiscal and monetary policies; environmental claims arising in respect of properties acquired with undisclosed or unknown environmental problems or as to which inadequate reserves have been established; changes in real property tax rates; changes in energy prices; negative developments in the economy; uninsured casualties; force majeure acts, weather events, terrorist events, under-insured or uninsurable losses; and other factors which are beyond the reasonable control of Castlelake. In addition, real estate assets are subject to long-term cyclical trends that give rise to significant volatility in values.

Many of these factors could cause fluctuations in occupancy rates, rent schedules or operating expenses, causing the value of the Fund's investments to decline and negatively affect the Fund's returns. The value of the Fund's investments may fluctuate significantly due to these factors and may be significantly diminished in the event of a sudden downward market for real estate and real estate-related assets. The returns available from investments depend on the amount of income earned and capital appreciation generated by the relevant underlying properties, as well as expenses incurred in connection therewith. If properties do not generate income sufficient to meet operating expenses, including amounts owed under any third-party borrowings and capital expenditures, the Fund's returns will be adversely affected. In addition, the cost of complying with governmental laws and regulations and the cost and availability of third-party borrowings may also affect the market value of and returns from the investments. The Fund's returns would be adversely affected if a significant number of tenants were unable to pay rent or if properties could not be rented on favorable terms. Certain significant fixed expenditures associated with purchasing properties (such as third-party borrowings, taxes and maintenance costs) may stay the same or increase even when circumstances cause a reduction in returns from properties. Real estate-related investments can entail the following risks:

- *Redeveloping and Repositioning Risks.* The Fund may seek to redevelop or reposition certain real estate properties. Such redevelopment or repositioning carries a number of attendant risks, including the possibility that costs incurred in connection with the initial development may not be recovered. In addition, suitable tenants may not be found for repositioned properties, which could lead to the Fund owning vacant properties producing insufficient income to meet expenses or provide a suitable return to the Fund. Another risk associated with redevelopment or repositioning include the risk that delays in the construction timetable result in a property not reaching a stage where it is reasonably fit for occupancy. Similarly, there may be planning risks arising from difficulties in obtaining planning consents and licenses, which delay the construction timetable of a redevelopment or repositioning timetable.
- *Risks of Acquiring Real Estate Loans and Participation.* Real estate loans acquired by the Fund can be at the time of their acquisition, or may become after acquisition, non-performing for a wide variety of reasons. Such non-performing real estate loans will 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. However, even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such real estate loan, replacement "take-out" financing will not be available. Purchases of participations in real estate loans may involve many of the same risks as investments in real estate loans and also carry risks of illiquidity and lack of control. It is possible that Castlelake may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by or on behalf of the Fund. The foreclosure process can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting several claims, counterclaims and defenses against

the holder of a real estate loan, including, without limitation, lender liability claims and defenses, even when such assertions have no basis in fact, in an effort to prolong the foreclosure action. In some jurisdictions, foreclosure actions can take up to several years to conclude. At any time during the foreclosure proceedings, the borrower may file for protection under bankruptcy or other similar law, which would have the effect of staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation may also create a negative public image of the collateral property and may disrupt ongoing leasing and management of the property.

- *Investments in New Developments.* Acquisition of direct or indirect interests in, or loans to owners or developers of, undeveloped land or underdeveloped real property, which are often non-income producing, are subject to the risks normally associated with such assets and development activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals and entitlements, the cost and timely completion of construction (including risks beyond the control of Castlake, such as weather or labor conditions or material shortages), supply chain disruptions, increased costs of supply and labor, the availability of both construction and permanent financing on favorable terms, political or local opposition, environmental issues, labor disputes (such as work stoppages), counterparty non-performance, project feasibility assessment and dealings with and reliance on third-party consultants. In addition, these investments will also be subject to the risks relating to the developer's or construction manager's ability to control construction costs or to build in conformity with plans and specifications, as well as to meet applicable timetables. Investments in new developments may also be affected or delayed by conditions beyond the developer's or construction manager's control. Additional risks may be incurred with periodic progress payments or other advances to a developer or construction manager prior to completion of construction or renovation. Properties under development or properties acquired to be developed may receive little or no cash flow from the date of acquisition through the date of completion of development and may experience operating deficits after the date of completion. The Funds generally rely upon projections of rental income and expenses and estimates of the fair market value of property upon completion of construction or renovation when agreeing upon a price to be paid for the property. These risks could result in substantial unanticipated delays, increased costs and expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the Funds.
- *Availability of Insurance Against Certain Catastrophic Losses.* Certain losses of a catastrophic nature, such as wars, earthquakes, floods, environmental contamination, terrorist attacks or other similar events, may be either uninsurable or insurable at such high rates that to maintain such coverage would cause an adverse impact on the related investments. In general, losses related to terrorism are becoming more difficult and more expensive to insure against. Some insurers are excluding terrorism coverage from their all-risk policies. In some cases, the insurers are offering significantly limited coverage against terrorist acts for additional premiums, which can greatly increase the total costs of casualty insurance for a property. As a result, not all investments may be insured against terrorism. If a major uninsured loss occurs, the Fund could lose both invested capital in and anticipated profits from the affected investments.
- *Environmental Liabilities.* The Funds may be exposed to substantial risk of loss from environmental claims arising in respect of direct investments made in real estate with undisclosed or unknown environmental problems or as to which inadequate reserves had been established, including

being liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Environmental claims with respect to a specific investment may exceed the value of such investment, and under certain circumstances, subject the other assets of the Funds to such liabilities. The presence of such hazardous or toxic substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow using such property as collateral and may have a significant adverse effect on the value and returns from such property. Under various laws, ordinances and regulations, an owner of property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such laws, ordinances and regulations may impose joint and several liability, which can result in a party being obligated to pay for greater than its share, or even all, of the liability involved. Such liability may also be imposed without regard to whether the owner knew of, or caused, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefor as to any property are generally not limited under such laws and regulations and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability to sell, lease, or otherwise realize income from the real estate or to borrow funds using such property as collateral, which could have an adverse effect on the Fund's return from such investment.

- *Harmful Mold and Other Air Quality Issues.* When excessive moisture accumulates in buildings or on building materials, mold may grow, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of the Fund's properties could require the Fund to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose the Fund to liability from its tenants, employees of its tenants and others if property damage or health concerns arise.
- *Americans with Disabilities Act.* Certain U.S. properties of the type to be acquired by the Fund must comply with Title III of the Americans with Disabilities Act (the "ADA") to the extent that such properties are "public accommodations" or "commercial facilities" as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of the properties where such removal is readily achievable. However, noncompliance with the ADA could result in substantial capital expenditures to remove structural barriers, as well as the imposition of fines or an award of damages to private litigants which might adversely affect the Fund's ability to make distributions to Limited Partners. Similar protective legislation can apply with respect to real estate holdings in Europe and can affect the Fund's investment returns.
- *Other Regulatory Risks.* Real estate properties are subject to various forms of regulation in addition to the ADA, including building codes, regulations pertaining to fire safety and handicapped access, and other regulations, which may from time-to-time be enacted. The Fund

may be required to incur significant costs to comply with any future changes in such regulations. However, noncompliance with existing or future regulations to which the properties are subject could result in substantial capital expenditures to bring the properties into compliance, as well as the imposition of fines or an award of damages to private litigants, which might adversely affect the Fund's ability to make expected distributions to Limited Partners.

- *Business Risks.* The Fund may invest in a full array of assets and instruments across aircraft and aviation finance markets and instruments globally. Such investments involve a high degree of business and financial risk that can result in substantial losses.

*Investment in Loans.* Castlelake may invest in loans in multiple types of industries, which may entail the following risks (among others):

- *General Credit Risks.* Credit risk relates to the ability of the borrower to make interest and principal payments on the loan or security as they become due. If the borrower fails to pay interest, the Fund's income might be reduced. If the borrower fails to repay principal, the value of that investment and the value of the Fund might be reduced. The Fund's interests in debt instruments are subject to risks of default. The Fund may be exposed to losses resulting from default and foreclosure. The value of the underlying collateral, if any, the creditworthiness of the borrower and the priority of the lien are each of great importance (although the Fund may invest in subordinate or second priority liens). There is no assurance that the Fund will correctly evaluate the value of the assets collateralizing the loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Fund has an interest, the Fund may lose all or part of the amounts advanced to the borrower. The Fund cannot guarantee the adequacy of the protection of the Fund's interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, the Fund cannot assure that claims may not be asserted that might interfere with enforcement of the Fund's rights. In the event of a foreclosure, the Fund or an affiliate of the Fund may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the Fund. Any costs or delays involved in the effectuation of a foreclosure of the loan, or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.
- *Lower Credit Quality Loans.* *Lower Credit Quality Loans.* There are no restrictions on the credit quality of loans in which the Fund can invest. Loans purchased by the Fund are expected to have substantial vulnerability to default in payment of interest and/or principal. Certain loans which the Fund may possess have large uncertainties or major risk exposures to adverse conditions and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than better quality loans but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans are also generally considered to be subject to greater risk than obligations with higher ratings in the case of deterioration of general economic conditions, and the yields and prices of such obligations may be more volatile than those for higher-rated securities.

- *Equitable Subordination.* Loans to companies operating in workout modes or under Chapter 11 of the Bankruptcy Code are, in certain circumstances, subject to certain potential liabilities which may exceed the amount of the Fund's loan. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions.
- *Usury Considerations.* Interest charged on loans owned by Funds may be subject to state usury laws imposing maximum interest rates and penalties for violation, including restitution of excess interest, unenforceability of debt, rescission rights or other borrower remedies. Although the Funds do not intend to engage in conduct expected to be in violation of any applicable usury laws, the potential exists for a borrower to assert that the usury laws of particular jurisdiction apply to a loan transaction.
- *Lack of Liquidity.* Loans and interests in loans have significant liquidity risks and market value risks since they are generally not publicly traded in organized exchange markets but are traded by banks and other institutional investors engaged in loan syndications. Because loans are privately syndicated and loan agreements are generally privately and heavily negotiated and customized and subject to offering restrictions, loans are not purchased or sold as easily as publicly-traded securities. Due to their illiquid nature, the Fund may not be able to dispose of its interest in a debt security in a timely manner and/or at a fair price. There is no assurance that the Fund will be able to dispose of an investment in a particular debt instrument prior to its redemption at maturity. The inability to dispose of a loan position could result in losses to the Fund, including the loss of its entire investment. The debt of highly leveraged companies or companies in default also may be less liquid than other debt. If the Fund voluntarily or involuntarily sold its interests in those types of debt instruments, it might not receive the full value it expected. In particular, these risks could arise from changes in the financial condition or prospects of the companies whose borrowings underlie the Fund's investments, changes in national or international economic or political conditions (including acts of war, terrorism or other calamity or crisis), adverse conditions in national or global financial or capital markets, or changes in laws, regulations, fiscal policies or political conditions of countries in which investments are made.
- *Special Risks.* Special risks associated with investments in bank loans and participations include (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 and other liabilities that may arise with respect to collateral securing the obligations, and (iv) limitations on the ability of the Fund to directly enforce its rights with respect to participations. Successful claims by third parties arising from these and other risks, absent bad faith, will be borne by the Fund.

*Loans and Origination Activities.* The Fund may engage in the origination of debt financing and/or purchase loans. If the Fund engages in such activities, it will be subject to applicable laws in each jurisdiction in which such activities take place. Such laws are frequently highly complex and may include licensing or registration requirements. The licensing processes can be lengthy and can be expected to subject a loan originator to increased regulatory oversight. In addition, the Fund may make certain investments in industries, companies or assets that are subject to licensing and other regulatory



requirements that may impact the Fund's ability to fully implement its investment strategy without obtaining the requisite license or regulatory approval. The Fund may incur significant costs, expenses and delays (including missed investment opportunities) in connection with such license or registration requirements. Non-compliance with such laws or regulations could have an adverse effect on the Fund.

In some instances, the process for obtaining a required license may require disclosure to regulators or to the public of information about the Fund, its direct or indirect investors, its loans, its business activities, its management or controlling persons or other matters. Such disclosures may provide competitors with information that allows them to benefit at the expense of the Fund, which could have a material adverse effect on the Fund. Failure, even if unintentional, to comply fully with applicable laws may result in sanctions, fines, or limitations on the ability of the Fund, Castlelake or their respective affiliates of the foregoing to do business in the relevant jurisdiction or to procure required licenses in other jurisdictions, all of which could have a material adverse effect on the Fund.

*Non-Performing Loans ("NPLs").* The Fund's investments are expected to include investments in NPLs and sub-performing loans which may involve a substantial amount of workout negotiations and restructuring, which may entail, among other things, the possibility of foreclosure and/or a substantial reduction in the interest rate and a substantial write-down of the principal invested in such loans. These processes can be lengthy and expensive. The Fund's investments in NPLs will likely involve entities or issuers that are experiencing or are expected to experience financial difficulties which may never be overcome, including companies involved in bankruptcy or other reorganization and liquidation proceedings. As a result, the Fund's investments may be subject to additional bankruptcy related risks and returns on such investments may not be realized for a considerable period of time.

Such investments could, in certain circumstances, subject the Fund to certain additional potential liabilities, which may exceed the value of the Fund's original investment therein. The Fund may also be subject to lengthy and expensive processes in relation to realizing value in such investments. There can be no assurance as to the amount and timing of payments with respect to NPLs. Further, while certain NPLs may be secured, some NPLs may not be secured. While investments in such NPLs may offer the opportunity for significant gains if all or a part of the principal on the loans is recovered, these investments involve a high degree of financial risk and can result in substantial or complete losses to the Fund.

There can be no assurance that the Fund's investments in NPLs will prove profitable or that the Fund will not incur significant losses. There are varying sources of statistical default and recovery rate data for loans and other debt securities and numerous methods for measuring default and recovery rates. However, historical performance of financial assets is not necessarily indicative of their future performance.

*NPL Underwriting.* The underwriting guidelines for NPLs are different from and, in certain respects, less stringent than the other general underwriting standards employed by originators. For example, these loans may have been originated to borrowers that have poor credit or that provide limited or no documentation in connection with the underwriting of the mortgage loan. Such loans present increased risk standards of delinquency, foreclosure, bankruptcy and loss than prime mortgage loans. An originator generally originates mortgage loans in accordance with underwriting guidelines it has established and, in certain cases, based on exceptions to those guidelines. These guidelines may not identify or appropriately assess the risk that the interest and principal payments due on a mortgage loan will be repaid when due, or at all, or whether the value of the mortgaged property will be sufficient to otherwise provide for recovery of such amounts. To the extent exceptions were made to an originator's underwriting guidelines

in originating an NPL, those exceptions may increase the risk that principal and interest amounts may not be received or recovered and compensating factors, if any, which may have been the premise for making an exception to the underwriting guidelines may not in fact compensate for any additional risk. NPLs may be secured by investor or commercial properties and/or assets or a borrower's primary residence or second home.

*NPL Modifications.* Part of the Fund's strategy in acquiring NPLs may involve making NPL modifications to reduce delinquencies and the risk of borrower default and, ultimately, to maximize the value of the NPL. Modifications may include permanently or temporarily reducing or otherwise changing the mortgage interest rate, forgiving payments of principal or interest, extending the final maturity date, capitalizing or deferring delinquent interest and other amounts owed under the mortgage loans, deferring principal payments with or without interest, or any combination of these or other modifications. These modifications may reduce the value of the NPL. The Fund's ability to modify NPLs may be limited due to the difficulty in contacting at-risk borrowers or creating modifications acceptable to affected borrowers.

*NPL Refinancing.* The Fund may seek to refinance an NPL to realize the greater value from such loan. However, there may be impediments to executing a refinancing strategy for NPLs. For example, many mortgage lenders have adjusted their loan programs and underwriting standards to be more conservative, which has reduced the availability of mortgage credit to prospective borrowers. This has resulted in reduced availability of financing alternatives for borrowers seeking to refinance their mortgage loans. A decline in housing prices may also result in higher loan-to-value ratios and leave borrowers with insufficient equity in their homes to permit them to refinance. To the extent prevailing mortgage interest rates continue to rise from their current levels, these risks would be exacerbated. The effect of the above would likely serve to make refinancing NPLs potentially more difficult and less profitable for the Fund.

*Residential Mortgage NPLs.* The Fund may acquire residential mortgage NPLs where the borrowers have failed to make timely payments of principal and/or interest currently or in the past. As part of the residential mortgage NPL portfolios the Fund may purchase, the Fund also may acquire performing loans that subsequently become non-performing. Many of these loans may have current loan-to-value ratios in excess of 100%, meaning the amount owed on the loan exceeds the value of the underlying real estate. If actual results are different from Castlake's assumptions in determining the prices for such loans, particularly if the market value of the underlying property decreases significantly, the Fund may incur significant losses.

*Lender Liability Considerations and Equitable Subordination.* In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. While believed to be unlikely, because of the nature of certain of the Fund investments, the Fund could be subject to allegations of lender liability. In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors, or (iv) uses its or its affiliates' influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a

court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination”. Because of the nature of certain of the Fund’s investments, the Fund could be subject to claims from creditors of an obligor that Fund’s investments issued by such obligor that are held by the Fund should be equitably subordinated, which could potentially reduce the cash flows and/or market value of the investment. The Fund may make investments in which it would not be the lead creditor. Accordingly, it is possible that lender liability or equitable subordination claims affecting the Fund investments could arise without the direct involvement of the Fund.

*Risks Associated with Bankruptcy Cases.* The Fund’s investment and lending activities, particularly involving companies in distressed situations, may result it in becoming involved as a creditor in bankruptcy cases. In addition, the Fund may purchase securities or assets of, or claims against, companies in bankruptcy.

- Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of the Fund.
- 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 Fund; it 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 reorganize and may be required to liquidate assets.
- The debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during the reorganization and may be adversely affected by an erosion of the issuer’s fundamental values. Such investments can result in a total loss of principal.
- U.S. bankruptcy law permits the classification of “substantially similar” claims in determining the classification of claims in a reorganization for purposes of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Fund’s influence with respect to a class of securities can be lost by the inflation of the number and the number of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by over the claims of certain creditors (for example, claims for taxes) may be quite high.
- There are instances where creditors and equity holders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those cases where the 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 it was adversely impacted, or other creditors and equity holders were harmed by the Fund.

- Commercial bankruptcy laws in Europe are slowly evolving into a system more akin to the Chapter 11 process in the United States, supporting potential financial restructurings rather than effective liquidations. U.S. insolvency procedures have historically been, and remain, on average more debtor orientated. The reverse is true for the United Kingdom and many other European jurisdictions where secured creditors have historically had extensive powers to protect their own rights, frequently overriding the interests of other creditors and the debtor.
- Changes in bankruptcy or other applicable laws may have a material adverse effect on the Fund.

The Fund 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.

*Nature of Investment in First Lien Senior Loans.* The assets of the Fund's portfolio may include first lien senior secured debt, including term loans and revolving loans and may pay interest at a fixed or floating rate.

The Fund may acquire interests in first lien loans by way of purchase or assignment in the primary and secondary markets. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a contracting party under the legal documentation with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. In addition, if the Fund acquires loans pursuant to an assignment, it is possible that the Fund's claims may be subject to attack (i.e., equitable subordination (as more fully discussed below) or disallowance) on account of the conduct of the transferee.

Some of the senior secured loans acquired by the Fund may be rated below investment grade or may not be rated by a credit rating agency. In terms of liquidity with respect to such investments, there can be no assurance that levels of supply and demand in senior secured loan trading will provide an adequate degree of liquidity for the investments therein.

The factors affecting an issuer's first lien loans, and its overall capital structure, are complex. Some first lien loans may not necessarily have priority over all other debt of an issuer. For example, some first lien loans may permit other secured obligations (such as overdrafts, swaps or other derivatives made available by members of the syndicate to the company) or involve first liens only on specified assets of an issuer (e.g., excluding real estate). Issuers of first lien loans may have two tranches of first lien debt outstanding, each with first liens on separate collateral. Furthermore, any secured debt is secured only to the extent of its lien and only to the extent of underlying assets or incremental proceeds on already secured assets. In the event of a chapter 11 filing by an issuer, title 11 of the United States Code (11 U.S.C. §§ 101 - 1532) (the "Bankruptcy Code") authorizes the issuer to use a creditor's collateral and to obtain additional credit by grant of a priority lien on the issuer's property, senior even to liens that were first in priority prior to the bankruptcy filing, as long as the issuer provides what the presiding bankruptcy judge considers to be "adequate protection," which may, but need not always, consist of the grant of replacement or additional liens or the making of cash payments to the affected secured creditor. The imposition of prior liens on the Fund's collateral would adversely affect the priority of the liens and claims held by the Fund and could adversely affect the Fund's recovery on its investments. Moreover, underlying assets are subject to credit,

liquidity, and interest rate risk. Although the amount and characteristics of the underlying assets considered as collateral may allow the Fund to withstand certain assumed deficiencies in payments occasioned by the company's default, if any deficiencies exceed such assumed levels or if underlying assets are sold it is possible that the proceeds of such sale or disposition will not be equal to the amount of principal and interest owing to the Fund in respect to its investment.

Further, loans may become non-performing for a variety of reasons. Upon a bankruptcy filing by an issuer of debt, the Bankruptcy Code imposes an automatic stay on payments of its pre-petition debt. Non-performing debt obligations may require substantial workout negotiations, restructuring or bankruptcy filings that may entail a substantial reduction in the interest rate, deferral of payments and/or a substantial write-down of the principal of a loan or conversion of some or all of the debt to equity. If an issuer were to seek relief under chapter 11 of the Bankruptcy Code, the Bankruptcy Code authorizes the issuer to restructure the terms of repayment of a class of debt even if the class fails to accept the restructuring as long as the restructured terms are "fair and equitable" to the class and certain other conditions are met.

First lien credit facilities are often syndicated to a number of different financial market participants. The documentation governing the facilities typically require either a majority consent or, in certain cases, unanimous approval for certain actions in respect of the loan, such as waivers, amendments, or the exercise of remedies. In addition, voting to accept or reject the terms of a restructuring of a credit pursuant to a chapter 11 plan of reorganization is usually done on a class basis. As a result of these voting regimes, the Fund may not have the ability to control any decision in respect of any amendment, waiver, exercise of remedies, restructuring or reorganization of an investment.

First lien loans are also subject to other risks and can cause unsecured creditors to seek remedies in order to limit the Fund's potential recovery of such investments, including (i) the possible invalidation of a debt or lien as a "fraudulent conveyance," (ii) the recovery as a "preference" of liens perfected or payments made on account of a debt in the 90 days before a bankruptcy filing, (iii) equitable subordination claims by other creditors, (iv) so-called "lender liability" claims by the issuer of the obligations, (v) environmental liabilities that may arise with respect to collateral securing the obligations, (vi) recharacterization claims in which certain creditors may seek to have the Fund's debt positions recharacterized as equity and therefore subordinate the Fund's claims to such creditors' claims and (vii) designating the vote (i.e., ignoring the customary class vote system) under a chapter 11 plan of reorganization in which lenders are entitled to vote as a class. It is possible that a secondary loan market participant can be denied a recovery from the debtor in a bankruptcy if a prior holder of the loans either received and does not return a preference or fraudulent conveyance or engaged in conduct that would qualify for equitable subordination.

The Fund's investments may be subject to early redemption features, refinancing options, prepayment options or similar provisions that, in each case, could result in the issuer repaying the principal on an obligation held by the Fund earlier than expected. It is common for first lien debt to be repaid prior to its maturity; thus, the actual duration of such investments is typically shorter than their stated final maturity calculated solely on the basis of the stated life and repayment schedule. Generally voluntary prepayments are permitted, and the timing of prepayments cannot be predicted with any accuracy. The degree to which issuers prepay senior debt, whether as a contractual requirement or at their election, may be affected by general business conditions, market interest rates, the issuer's financial condition and competitive market conditions among lenders.

*Nature of Investment in Second Lien Senior Loans.* The assets of the Fund's portfolio may include second lien senior secured debt, including term loans and revolving loans and may pay interest at a fixed or floating rate. Investments in second lien senior loans may be unsecured and will rank behind the issuer's secured indebtedness, including first lien senior loans.

Second lien loans are subject to the same risks associated with loans in general described above under "Nature of Investment in First Lien Senior Loans". However, second lien senior loans are subordinate in right of payment to one or more senior secured loans of the related borrower and therefore are subject to additional risk that the cash flow of the related borrower and the property securing the loan may be insufficient to repay the scheduled payments to the Fund after giving effect to any senior secured obligations of the related borrower. Second lien senior loans are also expected to be a more illiquid investment than senior secured loans for such reason. There also is less likelihood that the Fund will be able to sell participations in second lien loans that it originates or acquires, which would expose the Fund to increased risk.

*Nature of Investment in Subordinated Debt Instruments.* Certain of the Fund's investments may consist of loans or securities, or interests in pools of securities, that are subordinated or may be subordinated in right of payment and ranked junior to other securities issued by, or loans made to obligors. While such subordinated debt investments may benefit from the same or similar financial and other covenants as those enjoyed by the indebtedness ranking ahead of such investments and may benefit from cross-default provisions, some or all of such terms may not be part of particular investments. For example, under typical subordination terms, secured creditors are able to block the acceleration of the debt or the exercise by debt holders of other rights or remedies they may have as creditors for a period of time. In addition, the unsecured debt in which the Fund may invest may not be protected by financial covenants or limitations upon additional indebtedness, could have limited liquidity and may not be rated by a credit rating agency. Further, upon any distribution to an issuer's creditors in a bankruptcy, liquidation or reorganization or similar proceeding, the holders of such issuer's senior and/or secured indebtedness (to the extent of the collateral securing such obligation) will be entitled to be paid in full before any payment may be made with respect to the Fund's subordinated debt investments. In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to an issuer, the Fund will participate with all other holders of such issuer's indebtedness in the assets remaining after the issuer has paid all of its senior and/or secured indebtedness (to the extent of the collateral securing such obligation). An issuer may not have sufficient funds to pay all of its creditors and the Fund may receive nothing, or less, ratably, than the holders of senior and/or secured indebtedness of such issuer or the holders of indebtedness that is not subordinated.

*Mezzanine Loans.* The Funds may invest in mezzanine loans that also have indebtedness which is more senior than the mezzanine loans, all or a portion of which may be secured. The Funds may also provide financing to companies or other entities and subsequently create senior debt held by a third party and mezzanine debt held by the Funds, or some other combination thereof. Mezzanine loans or facilities may, but often will not, benefit from the same or similar financial terms and other covenants as those provided to more senior indebtedness. The ability of the Funds to influence a borrower's affairs, particularly during periods of financial distress or following insolvency, is likely to be substantially less than those holding more senior obligations.

*Direct Loans.* On occasion, Funds may provide financing to borrowers that have difficulty obtaining financing from other sources. Deterioration in a borrower's financial condition and prospects may be accompanied by a decrease in the value of any collateral and a reduced likelihood of the borrower's repayment and of Castlake capitalizing on any guarantees it may have obtained from the borrower's management or other parties. Some direct loans may be subordinated to a senior lender and interest in any collateral would, accordingly, likely be subordinate to another lender's security interest.

*Structuring CLOs.* Castlake has, and is expected to continue to, source certain loans into one or more warehouse facilities (each, the "Warehouse Facility") and Castlake has, and may continue to securitize Castlake's direct or indirect investments (including the loans that are a part of the Warehouse Facility), including through the formation of one or more CLOs, while generally retaining some exposure to the performance of these loans. This could involve contributing a pool of assets to a special purpose entity and selling debt interests in such entity on a non-recourse or limited-recourse basis to purchasers. There can be no assurances or guarantees Castlake will securitize all or any of the Partnership's assets (including the aviation assets that are a part of, or held outside of, the Warehouse Facility) through the formation of one or more CLOs, which may reduce the Partnership's overall exit options and returns and/or have an adverse effect on the ability of the Partnership to effectively achieve its investment objective. In the event of a CLO, the Partnership will depend on distributions from the CLO's assets to enable it to make distributions to investors, and the aggregate return on CLO equity securities will depend in part upon the ability of Castlake to actively manage the related portfolio of the assets of such issuers of CLOs. Furthermore, the ability of a CLO to make distributions will be subject to various limitations, including the terms and covenants of the debt it issues. For example, tests (based on interest coverage or other financial ratios or other criteria) may restrict the Partnership's ability, as holder of a CLO's equity interests, to receive cash flow from these investments. There is no assurance any such performance tests will be satisfied. Also, a CLO may take actions that delay distributions in order to preserve ratings and to keep the cost of present and future financings lower, or the CLO may be obligated to retain cash or other assets to satisfy over-collateralization requirements commonly provided for holders of the CLO's debt. As a result, there may be a lag, which could be significant, between the repayment or other realization on a loan or other assets in, and the distribution of cash out of, a CLO, or cash flow may be completely restricted for the life of the CLO. In addition, a decline in the credit quality of any assets in a CLO, declines in the value of any collateral or increases in defaults, among other things, may force a CLO to sell certain assets at a loss, reducing its earnings and, in turn, cash potentially available for distribution to the Partnership for distribution. To the extent that any losses are incurred by the CLO in respect of any collateral, such losses will be borne first by the holder of equity interests therein (a portion of the equity of which the Partnership is anticipated to hold for at least some period of time). Any equity interests that in a CLO will not be secured by the assets of the CLO and an equity holder will rank behind all creditors of the CLO. Any such CLO would, in some cases, at least initially, be managed by an affiliate of Castlake (a "Collateral Manager," and any CLO managed by the Collateral Manager, an "Affiliated CLO"). A Collateral Manager will receive CLO level compensation for managing the Affiliated CLO. Where a Collateral Manager, the manager, or another Castlake affiliate receives such compensation, the Partnership would not receive any such compensation other than through the offset of the management fee in accordance with the terms of the Partnership Agreement, which only applies in respect of the Limited Partner's indirect equity ownership of the Affiliated CLO. Investments in Affiliated CLOs create certain other conflicts of interest, as further described in Appendix B - "Potential Conflicts of Interest" - "CLOs." There can be no assurances or guarantees that all of the Partnership's assets will be suitable for inclusion in a CLO and such assets may achieve returns less than if such assets were suitable and included in a CLO.

*Leveraged Nature of CLO Securities.* The Partnership has made and will indirectly seek to continue to make all or certain investments or divestments in CLOs through the Warehouse Facility. The subordination of securities issued by CLOs (and, in particular, of equity (“CLO Equity”) or subordinated debt securities issued by CLOs, which is typically highly leveraged) makes such debt securities issued by CLO issuers (“CLO Debt” and collectively with CLO Equity, “CLO Securities”) a leveraged investment in the assets of the CLO issuer that issued it. Therefore, changes in the value of such CLO Security would be anticipated to be greater than changes in the value or payment performance of the debt obligations (including without limitation interests in bank loans or bonds acquired by way of a participation or assignment) (each, an “Underlying Asset”) owned by the CLO issuer, which themselves are subject to credit, liquidity, market and interest rate risk. Utilization of leverage is a speculative investment technique and involves certain risks to investors. The indebtedness of a CLO issuer under any notes issued by it will result in interest expense and other costs incurred in connection with such indebtedness that may not fully be covered by proceeds received from the Underlying Assets. Although the use of leverage generally magnifies opportunities for gain by holders of CLO Equity, it also magnifies risk of loss. Returns to the Partnership on any holding of a CLO Security will be highly dependent on the amount of such leverage and upon changes in interest rates, delinquencies and losses on the Underlying Assets. As a result, the Partnership may receive payments in respect of any investment in a CLO Security that are, in the aggregate, less than the original amount of its investment in such CLO Security. The CLO Securities issued by a CLO issuer may be subordinate to other CLO Securities issued by such CLO issuer and to other creditors of such CLO issuer, whether secured or unsecured and whether known or unknown, including, without limitation, any hedge counterparties.

*Ability to Purchase Loans on Advantageous Terms, Competition and Supply.* The Fund’s success will depend, in part, on the ability of the Fund or its affiliates to source and purchase loans on advantageous terms. In sourcing and purchasing loans, the Fund or its affiliates compete with a broad spectrum of lenders, many of which have substantially greater financial resources and are more well-known than the Fund. Increased competition for, or a diminishment in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

*Purchases of Debt on a Secondary Basis.* The Fund may invest in loans acquired on a secondary basis. The Fund is unlikely to be able to negotiate the terms of such debt as part of its acquisition and, as a result, these loans may not include some of the covenants and protections the Fund may generally seek. Even if such covenants and protections are included in the investments held by the Fund, the terms of the loans may provide issuers substantial flexibility in determining compliance with such covenants. In addition, the terms on which loans are traded on the secondary market may represent a combination of the general state of the market for such investments and either favorable or unfavorable assessments of particular investments by the sellers thereof.

*Loan Participations and Assignments.* The Fund may invest in fixed- and floating-rate loans, which investments generally will be in the form of loan participations and assignments of portions of such loans. Participations and assignments involve special types of risk, including credit risk, interest rate risk, liquidity risk, and the risks of being a lender. Participations in commercial loans may be secured or unsecured. Loan participations typically represent direct participation in a loan to a corporate borrower, and generally are offered by banks, other financial institutions or lending syndicates. When purchasing loan participations, the Fund assumes the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary and may only be able to enforce its rights through the lender and may assume the credit risk of the lender in addition to the



borrower. The participation interests in which the Fund invests may not be rated by any nationally recognized rating service.

Investments in loans through a direct assignment of a financial institution's interests with respect to the loan may involve additional risks to the Fund. For example, if a loan is foreclosed, the Fund could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that, under legal theories of lender liability, the Fund could be held liable as a co-lender. It is unclear whether loans and other forms of direct indebtedness offer securities laws protections against fraud and misrepresentation. In the absence of definitive regulatory guidance, the Fund relies on Castlake's research in an attempt to avoid situations where fraud or misrepresentation could adversely affect the Fund.

*Structured Finance Transactions and Obligations.* The value of certain structured finance and other transactions in which Funds can invest may be particularly sensitive to changes in prevailing interest rates, and the ability of Funds to successfully utilize these instruments may depend in part on Castlake's ability to forecast interest rates and other economic data correctly. Structured finance obligations are subject to a number of risks, including but not limited to prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may depend upon any associated hedge agreement providing for the exchange of interest accruing on the security being repackaged into interest stated to be payable on the trust certificates or similar securities). In addition, the performance of a structured finance obligation will be affected by a variety of factors, including the level and timing of payments and recoveries on and the characteristics of the underlying repackaged securities, the quality and cost of the servicer, remoteness of those assets from the originator or transferor and the adequacy of and ability to realize upon any related collateral. Moreover, to the extent Funds invest in non-U.S. debt obligations, they may be subject to additional risks and considerations, including the uncertainties involved in enforcing and collecting debt obligations against sovereign nations, which may be affected by world events, changes in U.S. foreign policy, currency risk and other factors outside of Castlake's control.

*Mortgage-Backed and Asset-Backed Securities.* Mortgage-backed securities represent an interest in a pool of mortgages. When market interest rates decline, more mortgages are refinanced, and the securities are paid off earlier than expected. Prepayments may also occur on a scheduled basis or due to foreclosure. When market interest rates increase, the market values of mortgage-backed securities decline. At the same time, however, mortgage refinancing and prepayments slow, which lengthens the effective maturities of these securities. As a result, the negative effect of the rate increase on the market value of mortgage-backed securities is usually more pronounced than it is for certain other types of fixed-income securities. Asset-backed securities are structured like mortgage-backed securities, but instead of mortgage loans or interests in mortgage loans, the underlying assets may include, but are not limited to, such items as motor vehicle installment sales or installment loan contracts, leases of various types of real and personal property, and receivables from credit card agreements. The ability of an issuer of asset-backed securities to enforce its security interest in the underlying assets may be limited, and such securities are subject to many of the same risks as mortgage-backed securities.

Asset-backed securities are also subject to risks associated with their structure and the nature of the assets underlying the security and the servicing of those assets. Payment of interest and repayment of principal on asset-backed securities is largely dependent upon the cash flows generated by the assets backing the securities and, in certain cases, supported by letters of credit, surety bonds or other credit enhancements. The values of asset-backed securities may be substantially dependent on the servicing of

the underlying asset pools and are therefore subject to risks associated with the negligence by, or defalcation of, their servicers. Furthermore, debtors may be entitled to the protection of a number of state and federal consumer credit laws with respect to the assets underlying these securities, which may give the debtor the right to avoid or reduce payment. In addition, due to their often-complicated structures, various asset-backed securities may be difficult to value.

***Mortgage Servicing Rights.*** The Fund will invest in undervalued and distressed assets, which may include financial assets such as mortgage servicing rights. The value of mortgage servicing rights can be volatile. Changes in interest rates or prepayment speeds could negatively impact the value of mortgage servicing rights. Mortgage servicing rights carry interest rate risk because the total amount of servicing fees earned, as well as changes in fair-market value, fluctuate based on expected loan prepayments (affecting the expected average life of a portfolio of residential mortgage servicing rights). The rate of prepayment of residential mortgage loans may be influenced by changing national and regional economic trends, such as recessions or stagnating real estate markets, as well as the difference between interest rates on existing residential mortgage loans relative to prevailing residential mortgage rates. During periods of declining interest rates, many residential borrowers refinance their mortgage loans. Changes in prepayment rates are therefore difficult for us to predict. The loan administration fee income (related to the residential mortgage loan servicing rights corresponding to a mortgage loan) decreases as mortgage loans are prepaid. Consequently, in the event of an increase in prepayment rates, Castlelake would expect the fair value of portfolios of residential mortgage loan servicing rights to decrease along with the amount of loan administration income received. Further mortgage servicing rights requirements may change and require the Fund to incur additional costs, expenses and risks. The U.S. Consumer Financial Protection Bureau (the “CFPB”) and the bank regulators continue to bring enforcement actions and develop proposals, rules and practices that could increase the costs of providing mortgage servicing. Regulation of mortgage servicing could make it more difficult and costly to timely realize the value of collateral securing such loans upon a borrower default.

***Tenant Protection and Affordable Housing.*** Affordable housing and tenant protection regulations may limit the Fund’s ability to increase rents and pass through new or increased operating expenses to tenants. Certain states and municipalities have adopted laws and regulations imposing restrictions on the timing or amount of rent increases and other tenant protections. The Fund may operate and acquire assets in areas that either are subject to these types of laws or regulations or where such laws or regulations may be enacted in the future. Such laws and regulations limit the Fund’s ability to charge market rents, increase rents, evict tenants or recover increases in operating expenses and could make it more difficult for the Fund to dispose of assets in certain circumstances.

The Fund may own debt or equity interests in affordable housing communities and other properties that benefit from governmental programs intended to provide housing to individuals with low or moderate incomes. These programs, which are typically administered by the United States Department of Housing and Urban Development (“HUD”) or state housing finance agencies, typically provide mortgage insurance, favorable financing terms, tax credits or rental assistance payments to property owners. As a condition of the receipt of assistance under these programs, the properties must comply with various requirements, which typically limit rents to pre-approved amounts and impose restrictions on resident incomes. Failure to comply with these requirements and restrictions may result in financial penalties or loss of benefits. In addition, the Fund or its affiliate will typically need to obtain the approval of HUD in order to acquire or dispose of a significant interest in or manage a HUD-assisted property.

*Warrants.* The Fund may receive warrants, and in certain circumstances prior to exit, may be required to exercise such warrants in order to hold the underlying securities. Warrants generally give the holder the right to receive, upon exercise, a security of the issuer at a stated price. Risks associated with the use of warrants and rights are generally similar to risks associated with the use of options. Unlike most options, however, warrants and rights are issued in specific amounts, and warrants generally have longer terms than options. Warrants and rights are not likely to be as liquid as exchange-traded options backed by a recognized clearing agency. In addition, the terms of warrants may limit the Fund's ability to exercise the warrants at such time, or in such quantities, as the Fund would otherwise wish.

The Fund would seek to negotiate "cashless" exercise for all warrants that it receives, whereby no investment will be required to convert, however, on occasions it may not be possible to negotiate such "cashless" exercise, and the Fund may be required to invest cash to convert warrants and hold underlying securities, which may subsequently lose some or all of their value.

*Consumer Credit.* Funds may invest in consumer credit, such as consumer loans, including credit card receivables and similar assets, automobile loans, student loans, small balance installment loans or other loans. The performance of such assets or loans will be affected by general economic conditions and conditions impacting the individual underlying borrowers including but not limited to interest rates, unemployment levels, gasoline prices, upward adjustments in monthly mortgage payments, the rate of inflation, consumer perceptions of economic conditions generally and changes in consumer confidence levels, as well as the quality and cost of the servicer. These loans are subject to risks of prepayment, delinquency and default similar to those present in mortgage loans. The ability of a borrower to repay any such loan is dependent on a number of factors, including, among other things, the income and assets of the borrower. Funds may invest in consumer loans that have been made to borrowers of varying creditworthiness, have been extended pursuant to varying underwriting guidelines, have no underwriting guidelines at all, or have been subject to fraudulent origination practices. Risks specific to different categories of consumer loans may affect the Funds' return on such investments. In the case of credit card loans, for example, various and unpredictable social, economic and geographic factors may affect the payment patterns and rates of default by borrowers, including consumer confidence and attitudes toward debt, rates of inflation and unemployment and prevailing interest rates. Rates of prepayment and default on consumer loans will similarly vary based on a number of factors but will also be affected by contractual terms present in such loans, including the extension of grace periods, deferment periods and, under some circumstances, forbearance periods. Castlelake cannot predict how these, and other factors may affect the Funds' investments in consumer loans.

In addition, consumer loans generally have significant risk of loss or default, particularly in the case of loans that are secured by rapidly depreciable assets, such as automobiles, or loans that are unsecured. In these cases, the Funds face the risk that any collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. Thus, the recovery and sale of such property could be insufficient to compensate the Funds for the principal and interest outstanding on these loans. In addition, because loan applications may be completed by third parties, the Funds assume the risks associated with that third party properly complying with U.S. federal, state, and local or other applicable domestic or foreign consumer protection laws. It may become necessary to increase the Funds' provision for loan losses in the event that the Fund's losses on consumer loans increase, which would reduce the Funds' profits.

Further, consumer loans and other consumer credit products are subject to various consumer protection laws which regulate the creation and enforcement of such loans and other products. In the U.S., regulators such as the U.S. Consumer Financial Protection Bureau (the “CFPB”) and individual U.S. states may further regulate the consumer credit industry in ways that make it more difficult for servicers of such loans to collect payments on such loans, resulting in reduced collections. Such laws and regulations may, among other things, regulate interest rates and other charges, require certain disclosures, regulate the use of consumer credit information and regulate debt collection practices (e.g., the U.S. Fair Debt Collection Practices Act). The violation of certain provisions of these and other applicable laws and regulations by originators, lenders, servicers and their affiliates may limit their ability to collect all or part of the principal of, or interest on, such loans, entitle the borrower to a refund of amounts previously paid by it, or require such originators, lenders, servicers and their affiliates to pay significant fines and penalties and/or other significant expenditures. Changes to U.S. federal or state bankruptcy or debtor relief or other applicable laws may also impede collection efforts or alter timing and amount of collections. In the U.S., if a borrower were to seek protection under U.S. federal or state bankruptcy or debtor relief laws, a court could reduce or discharge completely the borrower’s obligations to repay amounts due on its receivable. Similar types of laws in non-U.S. jurisdictions often carry the same or similar risks.

The CFPB has rulemaking, supervisory, and enforcement and other authorities relating to consumer financial products and services, including debt collection. The Funds’ third-party servicers may be subject to the CFPB’s supervisory and enforcement authority. Increased regulation on both a federal and state level have resulted in changes to consumer protection laws, which impede collection efforts, increase costs of collection, alter timing and amount of collections and reduce the yield on credit card receivables. Practices with respect to revolving credit card accounts that do not comply with consumer protection laws may result in certain credit card receivables not being valid or enforceable in accordance with the terms of such accounts against the obligors of those credit card receivables. Federal and state consumer protection laws regulate the creation and enforcement of consumer loans, including credit card receivables.

Increased regulation on both a federal and state level have resulted in, and may in the future result in, changes to consumer protection laws, which impede collection efforts, increase costs of collection, alter timing and amount of collections and reduce the yield on credit card receivables. Practices with respect to revolving credit card accounts that do not comply with consumer protection laws may result in certain credit card receivables not being valid or enforceable in accordance with the terms of such accounts against the obligors of those credit card receivables. Federal and state consumer protection laws regulate the creation and enforcement of consumer loans, including credit card receivables. The Credit Card Accountability Responsibility and Disclosure Act of 2009 (the “CARD Act”), as modified by a series of implementing rules, amended the Truth in Lending Act by mandating various additional standards and practices with respect to the marketing, underwriting, pricing, billing and other aspects of the consumer credit card business. The CARD Act imposes certain substantive account administration and pricing requirements, including, but not limited to, limiting the amount of any penalty fees or charges, including late fees, returned payment fees, and returned check fees, for credit card accounts to amounts that are “reasonable and proportional to the related omission or violation”. The CARD Act and other consumer protection laws and regulations may reduce the effective yield of credit card portfolios and could result in reduced income for the Fund. In addition to the above-mentioned laws, a variety of U.S. federal agencies, states and other municipalities are increasingly seeking to regulate the consumer lending market.

In May 2015, the United States Court of Appeals for the Second Circuit issued a decision in *Madden v. Midland Funding*, holding that a nonbank loan purchaser cannot rely on federal law to continue charging the interest the bank lender can charge under federal law. The Second Circuit held that while the interest rate was permissible for the bank under preemption laws, it was not permissible for the non-bank debt buyer because the rate exceeded the New York state usury limit. This decision was binding in the Second Circuit but not in other parts of the country.

In response to the uncertainty *Madden* created as to the validity of interest rates of bank-originated loans sold in the secondary market, in May 2020 and June 2020, the Office of the Comptroller of the Currency (the “OCC”) and the Federal Deposit Insurance Corporation, respectively, issued final rules that reaffirmed the “valid when made” doctrine and clarified that when a bank sells, assigns, or otherwise transfers a loan, the interest rates permissible prior to the transfer continue to be permissible following the transfer.

The rules did not, however, address the “true lender” issue. In October 2020, the OCC issued its final “true lender” rule, which established a test for determining when a bank makes a loan and therefore is the “true lender” in the lending relationship. A bank makes a loan when, as of the date of origination, (1) the bank is named as the lender to the loan agreement or (2) the bank funds the loan. Despite the OCC’s effort to settle the “true lender” question (and the “valid when made” issue from *Madden*), challenges to the final rules are likely to occur.

The determination of whether a third-party service provider is the “true lender” is significant because third-parties risk having the loans they service becoming subject to a consumer’s state usury limits. If the Fund were re-characterized as a “true lender” with respect to the receivables originated by a bank, such receivables could be deemed to be void and unenforceable in some states, the right to collect finance charges and other amounts could be affected and the Fund could be subject to fines and penalties from state and federal regulatory agencies as well as claims by borrowers, including class actions by private plaintiffs. Even if the Fund were not required to change its business practices to comply with applicable state laws and regulations or cease doing business in some states, the Fund could be required to register or obtain lending licenses or other regulatory approvals that could impose a substantial cost.

*Oil and Gas.* The price of crude oil is inherently volatile, and this volatility is expected to continue. This may adversely affect the earnings of oil and gas related assets in which the Funds may invest and the performance and valuation of such investments. Historically, the markets for energy have been volatile and have been substantially depressed for an extended period. While oil prices have recovered from their low levels, there are different views about the strength of the economic recovery and future demand for oil and natural gas and other energy products. Consequently, there is no assurance that oil and energy prices will not fall again. The price of oil depends on numerous factors beyond Castlake’s control, including: (i) changes in the global supply, demand and inventories of oil; (ii) production interruptions; (iii) the actions of the Organization of the Petroleum Exporting Countries; (iv) the price and quantity of foreign imports of oil; (v) legislative and regulatory changes; (vi) political conditions, including embargoes, in or affecting other oil-producing countries; (vii) economic and energy infrastructure disruptions caused by actual or threatened acts of war, or terrorist activities, or national security measures deployed to protect the United States from such actual or threatened acts or activities; (viii) economic stability of major energy companies and the interdependence of oil and energy trading companies; (ix) the level of worldwide oil exploration and production activity; (x) weather conditions, including energy infrastructure disruptions resulting from those conditions; (xi) technological advances affecting energy consumption; and (xii) the price and availability of alternative fuels.

*Renewable Energy.* The highly cyclical nature of the industries within the energy sector may lead to volatile changes in energy prices, which may adversely affect the earnings of renewable energy related assets in which the Funds may invest and the performance and valuation of such investments. The performance of such investments may be substantially dependent upon the prevailing prices of oil and natural gas. As energy derived from fossil fuels becomes more expensive, the value of such investments and renewable technologies generally should increase as well. Conversely, if new oil or gas deposits are found, or if the cost of producing energy from these or other potential sources decreases significantly for other reasons, the attractiveness of the Funds' renewable investments would likely decrease. In addition, decreases in the retail prices of electricity from utilities or from other energy sources could decrease demand for renewable energy.

- *Equipment and Supply Risk.* The vast majority of the capital expenditure of a renewable energy project comes from procurement of the generation equipment and the construction of the facility. Therefore, the underlying agreements for the purchase of the generation equipment and the construction services are critical and if vendor performance under these contracts does not proceed as anticipated, one or more of the Funds' investments may be adversely affected. In addition, a decrease in the production or availability of requisite supplies, including solar photovoltaic equipment, wind turbines and other relevant materials and equipment could interfere with renewable energy investments dependent on such supplies and thus adversely affect the returns of the Fund.
- *Regulation of Wind and Solar Industries.* The wind and solar energy industries targeted for investments by the Funds are highly regulated, both by domestic and foreign governmental agencies. In addition, U.S federal, state and local and certain foreign government regulations and policies concerning the electric utility industry, and internal policies and regulations promulgated by electric utilities, heavily influence the market for electricity generation products and services. Currently, U.S. federal, state and local and certain foreign governments provide incentives to end users, distributors and manufacturers to promote wind and solar electricity in the form of rebates, tax credits and other financial incentives such as system performance payments and payments for renewable energy credits associated with renewable energy generation. These incentives could expire on a particular date, end when the allocated funding is exhausted or be reduced or terminated without warning as wind and solar energy adoption rates increase, which could result in a significant reduction in the potential demand for renewable energy systems, including wind and solar energy projects.
- *Solar Power.* The Funds may invest in portfolio investments that develop and operate solar power products, which face a variety of risks. Materials and components used to develop solar power products are often procured from a limited number of third-party suppliers. A failure to develop or maintain relationships with these or other suppliers may lead to higher costs and delays, leading to order cancellations and loss of market share. Moreover, these portfolio investments often expect to derive their revenues from new solar power products that are still under development and not commercially available. There is a risk that these portfolio investments will not be able to recover losses incurred to develop these products and technologies and become profitable. In addition, to refine technology and develop and introduce new solar power products could cause products to become uncompetitive or obsolete, causing sales to decline. Widespread adoption or sufficient demand for solar power products could take longer to develop than anticipated, which would also cause a lack of profitability. These investments also face intense

competition in a market that is rapidly evolving, and there is a possibility that competitors will attract and retain more customers and achieve more success in cost-cutting and will establish a market position that is more prominent.

- *Wind Power.* The Funds may invest in portfolio investments that will be engaged in the development and operation of wind farms. The development of a wind farm can require substantial initial capital investments, and there are significant risks related to the development of wind farms, including: (i) the availability of favorable government tax and other incentives; (ii) the high cost and potential regulatory and technical difficulties in integrating into new markets; (iii) an often limited or unstable marketplace; (iv) competition from other sources of electric power and other wind farms; (v) regulatory difficulties including obtaining necessary permits; difficulties in negotiating satisfactory turbine supply, engineering and construction agreements and with respect to connecting to the existing electricity transmission network; (vi) difficulties in negotiating power purchase agreements with potential customers, educating the market regarding the reliability and benefits of wind energy products and services; and (vii) costs associated with environmental regulatory compliance.

*Mining.* Commodity exploration and mining activities are inherently subject to numerous significant risks and uncertainties including, but not limited to: (i) unanticipated ground and water conditions and adverse claims to water rights; (ii) unusual or unexpected geological formations; (iii) metallurgical and other processing problems; (iv) the occurrence of unusual weather or operating conditions and other force majeure events; (v) lower than expected ore grades; (vi) industrial accidents; (vii) delays in the receipt of or failure to receive necessary government permits; (viii) delays in transportation; (ix) availability of contractors and labor; (x) government permit restrictions and regulation restrictions; (xi) unavailability of materials and equipment; and (xii) the failure of equipment or processes to operate in accordance with specifications or expectations. These risks and uncertainties could result in: (i) delays, reductions or stoppages in mining activities; (ii) increased capital and/or extraction costs; (iii) damage to, or destruction of, mineral projects, extraction facilities or other properties; (iv) personal injuries; (v) environmental damage; (vi) monetary losses; and (vii) legal claims. In addition, success in commodity exploration is dependent on many factors, including, without limitation, the experience and capabilities of a company's management, the availability of geological expertise and the availability of sufficient funds to conduct the exploration program. Even if an exploration program is successful and commercially recoverable commodities are established, the economic and operational feasibility of extraction may change, and global supply and demand may change.

*Shipping and Tanker Assets.* The Funds may invest in shipping and tanker vessels or assets. The shipping and tanker industries are both cyclical and volatile in terms of market values and operating costs of vessels and resulting profitability. Fluctuations in vessel values and costs result from changes in supply and demand and, specifically with respect to tanker capacity (and therefore, tankers), changes in the supply and demand for oil, oil products and chemicals. The factors affecting the supply and demand and operational costs for vessels are outside of Castlelake's control, and the nature, timing and degree of changes in industry conditions is unpredictable. Profitability of these investments will depend on Castlelake's projections with respect to future supply/demand and pricing that may not prove to be accurate. The market value of any vessels is also expected to fluctuate depending on general economic and market conditions affecting the shipping industry, as well as other modes of transportation, types, sizes and ages of vessels, applicable government regulations and the cost of new builds.

*Regulatory Impact on the Shipping and Tanker Industries.* The operation of tanker vessels is subject to extensive and changing environmental protection, safety and other federal, state and local laws, rules, regulations and treaties, compliance with which may entail significant expense, including expenses for ship modifications and changes in operating procedures. There can be no assurance that the shipping and tanker vessels or assets in which the Fund invests will be able to comply with all laws, rules, regulations and treaties following an acquisition transaction.

*Acts of Piracy.* Acts of piracy have historically affected ocean-going vessels in certain regions of the world. The Fund's shipping and tanker investments may not be adequately insured to cover losses from these incidents, which could have an adverse effect on the Fund. In addition, detention hijacking as a result of an act of piracy against such vessels, or an increase in cost, or unavailability of insurance for such vessels, could have an adverse impact on the Fund's investment, may result in loss of revenues, increased costs and decreased cash flows to such vessels' customers, which could impair their ability to make timely payments.

*Railcar Industry Risks.* The railcar market has been, and is expected to continue to be, highly cyclical, resulting in volatility in demand for the products and services. Many customers in the industry operate in cyclical markets, such as the energy, chemical, agricultural, food and construction industries, which are susceptible to macroeconomic downturns. Weakness in certain sectors of the U.S. economy may make it more difficult to lease certain types of railcars. The cyclical nature of the railcar industry may result in lower revenues during economic or industry downturns due to decreased demand for both new and replacement railcars, railcar products or railcar services as well as lower demand for railcar leases. Decreased demand could result in lower volumes of railcar leases, increased downtime, lower volumes of repair services, reduced lease rates, fewer lease renewals and decreased cash flows. Downturns in part or all of the railcar industry may occur in the future, resulting in decreased demand for products and services. For example, a change in environmental regulations, oil prices, competitive pricing, pipeline capacity and other factors could trigger a cyclical shift and could impact demand for railcars in the energy transportation industry.

Further, a change in the product mix of portfolio due to cyclical shifts in demand could have an adverse effect on the profitability of such investment. The demand for specific types of railcars varies from time-to-time. These shifts in demand could affect margins and have an adverse effect on such portfolio investment's profitability.

- *Effect of Economic Factors on Pricing.* The failure of the Fund to enter into commercially favorable railcar leases, re-lease railcars upon the expiration of leases and/or successfully manage existing leases could have a material adverse effect on its portfolio investments' businesses, financial conditions and results of operations. The ability to re-lease railcars profitably is dependent upon several factors, including the cost of and demand for leases or ownership of newer or specific use models, the availability in the market of other used or new railcars and changes in applicable regulations that may impact continued use of older railcars.

A downturn in the industries in which lessees operate or the economy in general and decreased demand for railcars could also increase the Fund's exposure to re-marketing risk because its lessees may demand reduced lease prices or shorter lease terms, which requires such investments to re-market leased railcars more frequently. Railcars that are returned by customers are often required to undergo maintenance and service work before being leased to new customers,



causing a delay in such portfolio investments' ability to re-market railcars and sometimes requiring capital expenditures to prepare railcars for re-lease. Their inability to re-lease railcars on favorable terms could result in lower lease rates, lower lease utilization percentages, reduced revenues and a decline in the value of lease fleets.

- *Railcar Alternatives.* As the freight transportation markets continue to evolve and become more efficient, the use of railcars may decline in favor of other more economic modes of transportation. Features and functionality specific to certain railcar types could result in those railcars becoming obsolete as customer requirements for freight delivery change. Operations may be adversely impacted by changes in the preferred method used by customers to ship their products or changes in demand for particular products. The industries in which customers operate are driven by dynamic market forces and trends, which are in turn influenced by economic and political factors in the U.S. and abroad. Demand for railcars may be significantly affected by changes in the markets in which such customers operate. A significant reduction in customer demand for transportation or manufacture of a particular product or change in the preferred method of transportation used by customers to ship their products could result in the economic obsolescence of railcars, including such portfolio investments' railcar lease fleets.

*Project Finance.* Some of the Funds' investments may be in structured project finance opportunities. A project finance structure entails the assumption of "project risk" by equity investors such as the Fund, usually without recourse to a project sponsor. Such risk can include construction risk, regulatory risk, operating and technical risks, bypass risk, demand, usage and patronage risks, catastrophic and force majeure risks, risk of environment liabilities, documentation risks and commodity price risks. The Fund may also invest in some projects and facilities at an early stage of development. These projects involve additional uncertainties, including the possibility that the projects may not be completed, operating licenses may not be obtained, and permanent financing may be unavailable.

*Loan Participations and Assignments.* Funds may invest in fixed- and floating-rate loans, which investments generally will be in the form of loan participations and assignments of portions of such loans. Participations and assignments involve special types of risk, including credit risk, interest rate risk, liquidity risk, and the risks of being a lender. Participations in commercial loans may be secured or unsecured. Loan participations typically represent direct participation in a loan to a corporate borrower, and generally are offered by banks, other financial institutions or lending syndicates. When purchasing loan participations, Funds: (i) assume the credit risk associated with the corporate borrower; (ii) may assume the credit risk associated with an interposed bank or other financial intermediary; (iii) may only be able to enforce its rights through the lender; and (iv) may assume the credit risk of the lender in addition to the borrower. The participation interests in which the Fund invests may not be rated by any nationally recognized rating service.

Investments in loans through a direct assignment of a financial institution's interests with respect to the loan may involve additional risks to Funds. For example, if a loan is foreclosed, the Funds could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that, under legal theories of lender liability, the Funds could be held liable as a co-lender.

*Currency Risk Relating to Companion Funds.* The Accounts' investments and the income received with respect to such investments, may be denominated in various currencies. However, the books of the

Accounts are generally maintained, and capital contributions to and distributions from the Accounts will be made, in U.S. dollars. Accordingly, fluctuations in currency values could adversely affect the U.S. dollar value or other currency value, as applicable, of portfolio investments, interest, dividends and other revenue streams received by the Accounts, gains and losses realized on the sale of portfolio investments and the number of distributions, if any, to be made by the Accounts. Currencies of some countries in which the Accounts invest are often subject to government intervention, restrictions on repatriation and similar restrictions, which exacerbates the risk of unexpected fluctuations and/or could cause the Accounts and/or investments to incur significant costs or experience substantial delays in, or be prohibited from, converting currencies. If Castlelake offers an Account denominated in a currency other than U.S. dollars, then similar risks will apply with respect to such currency.

In addition, the Accounts will incur costs in converting investment proceeds from one currency to another to the extent investments are made in a currency other than the currency of such Account. Where practicable, the Accounts might enter into hedging transactions designed to reduce such currency risks. Furthermore, the portfolio investments in which the Accounts invest could in many cases be subject to risks relating to changes in currency values, as described above. If a portfolio investment suffers adverse consequences as a result of such changes, the Accounts likely would also be adversely affected as a result. Furthermore, investments will be allocated among participating Accounts by Castlelake in accordance with its allocation of investments policy and/or Offering Documents, and to the extent different Accounts are denominated in different currencies, the portion of any investment allocated among such Accounts may differ materially based on exchange rates at the time of investment allocation. Also, if a Fund provides bridge financing attributable to an investment amount expected to be syndicated to another Fund or third party, the amount ultimately syndicated will depend on exchange rates as of the date of syndication, which may result in either more or less of an investment being permanently held by the relevant Fund.

*Bridge Financings.* From time-to-time, certain Funds may provide interim financing to facilitate an investment on a short-term, unsecured basis in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication (including for co-investments or other Funds). Such bridge loans would typically be convertible into a more permanent, long-term security; however, for reasons not always within the Funds' control, such long-term securities may not be issued, or refinancing or syndication may not occur, and such bridge loans may remain outstanding with an increased risk of default. In such event, the interest rate on such loans may not adequately reflect the risk associated with the unsecured position taken by the Funds, and such loans may cause the Funds to have increased concentration in the given investment.

To the extent a Fund provides bridge financing to facilitate portfolio investments, it is possible that all or a portion of such bridge financing will not be recouped within the time period specified in the applicable Offering Documents, in which case the investment would be treated as a permanent investment of the Fund. As a result, the Fund's portfolio could become more concentrated with respect to such investment than initially expected or otherwise provided for under the Fund's investment limitations, certain of which exclude bridge financing investments. A Fund could also be compelled to sell a portion of the excess investment to other parties at unattractive prices if the co-investor or other Funds do not also invest as expected.

*Non-Controlling Investments.* Although Castlelake will typically seek to have control rights with respect to its investments, the Funds may make non-controlling investments and, therefore, may have a limited ability to protect its investments. The Funds may hold meaningful minority stakes in investments and in

some cases may have limited minority protection rights. In addition, during the process of exiting investments, the Funds at times may hold minority equity stakes of any size such as might occur if portfolio investments are taken public. As is the case with minority holdings in general, such minority stakes that the Funds may hold will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes. Funds may seek to protect their interests or influence company management by negotiating the right to appoint a director or by obtaining certain other minority investor rights. Board service and some minority rights provisions may affect the Funds' ability to dispose of such an investment. Where the Funds hold a minority stake, it may be more difficult for the Funds to liquidate their respective interests than it would be had the Funds owned a controlling interest in such investment. Even if the Funds have contractual rights to seek liquidity of the Funds' minority interests in such investments, it may be very difficult to sell such interests or seek a sale of such investment upon terms acceptable to the Funds, especially in cases where the interests of the other investors in such investment have different business and investment objectives and goals.

*Controlling Interests.* Because of equity ownership in certain companies, representation on the board of directors and/or contractual rights (if applicable), Funds may control, participate in the management of or influence substantially the conduct of portfolio companies. The exercise of control over a company imposes additional risks of liability for environmental damage, products, benefits, failure to supervise management, violation of laws and regulations, for which the limited liability generally afforded to investors may be ignored. The exercise of control may also subject Castlake to claims from third parties, including minority investors of such company. In general, the Funds bear the costs of such claims and generally indemnify Castlake parties when acting on behalf of the Funds.

*Investment in Junior Securities.* The securities in which the Fund will invest may be among the most junior in a portfolio investment's capital structure and, thus, subject to the greatest risk of loss. Generally, there will be no collateral to protect the Fund's investment once made.

*Joint Venture Arrangements.* The Funds may enter joint venture arrangements in which Castlake does not retain all decision-making authority. In the event of such joint venture arrangement, Castlake will seek to negotiate appropriate rights to protect Fund interests, although there can be no assurance that such rights will be available or that such rights will provide sufficient protection of Fund rights or interests. Such an investment may involve risks not present in investments where a third party is not involved, including the possibility that the joint venture partner may be unable or unwilling to perform its duties or obligations under the relevant agreement, may have financial, legal or regulatory difficulties resulting in a negative impact on the joint venture, may have economic or business interests or goals which are inconsistent with those of the Fund, or may be in a position to take (or block) action in a manner contrary to the Fund's investment objectives. In addition, the increased possibility of default by, diminished liquidity or insolvency of, the joint venture partner, due to a sustained or general economic downturn (including in the event of default on its funding obligations, the Fund may have to make up for the shortfall) and the possibility that the Fund may be liable for the actions of its joint venture partner in certain circumstances.

*In-House Asset Servicing Team.* Servicing with respect to certain of the Fund's assets is expected to be performed in-house by Castlake employees or affiliates (including a Platform Servicing Company (as defined in Service Company Fees section)), and such services will relate to assets held through various investment structures, including, without limitation, any warehouse facility, CLO, private securitization, or other debt structure. In some instances, some of the loans held in the Fund's portfolios could be originated or otherwise sourced by Castlake or its affiliates (including a Platform Servicing Company),

and/or Castlelake or an affiliate (including a Platform Servicing Company) could serve as administrative agent for the loans. In such cases, Castlelake and/or its affiliates are expected to perform the duties and responsibilities typically assigned to an administrative agent for and on behalf of each loan; apply the terms of each credit agreement; and have no authority to determine how cash is used, allocated or disbursed.

Although Castlelake seeks to recruit and retain talented and skilled employees, there can be no assurance that Castlelake currently has, or will in the future be able to attract, train, develop, integrate or retain, suitable employees with the skills required to provide such servicing, and, as a result, the Fund may be adversely affected thereby. Qualified personnel, in particular technical aviation servicing professionals, are in great demand throughout the aviation industry. Competitors and other entities may attempt to recruit Castlelake's employees. The loss of such personnel, the inability to identify, attract or retain qualified personnel, particularly technical aviation servicing professionals, in the future or delays in hiring qualified personnel may make it difficult for Castlelake to manage the Fund and its assets. Moreover, Castlelake's servicing team may provide other services regarding investments where it is possible that other servicers or third parties have more experience so there is no guarantee that such services provided by Castlelake will be comparable to that which could be provided by one or more third parties.

Although Castlelake believes that its aviation in-house servicing team differentiates Castlelake, one or more competitors may establish a dedicated servicing platform which may, now or in the future, be able to replicate Castlelake's model, partially or entirely, on a more efficient and effective basis. Competitors seeking to develop similar in-house services could also hire Castlelake's key employees. Such third parties may compete with the Fund for investment opportunities.

Castlelake relies on trade secret and other similar laws and confidentiality agreements with employees and third parties to protect its proprietary aircraft and portfolio modeling approach, all of which offer only limited protection. Castlelake's intellectual property rights may be invalidated, or competitors may develop a similar portfolio modeling approach independently. Legal proceedings to enforce Castlelake's intellectual property rights may be unsuccessful and could also be expensive and divert management's attention.

*Asset Servicers.* In addition, the Fund may enter into arrangements with industry specialized management or advisory teams (which may include joint venture partners) to acquire, manage and dispose of certain assets (such as consumer receivables, real estate and shipping assets), which can include fixed payments and/or profit-sharing arrangements with such persons, thus impacting the returns to the Funds. The failure on the part of Castlelake to select or retain the right management or advisory team for an asset class and/or to establish a governance and compensation structure that provides for the appropriate balance of economic incentives to the team and oversight by Castlelake, or to provide servicing with respect to certain assets (including securitizations) on its own, would have a material adverse effect on the Funds' investment in such asset class.

*Reliance on Key Personnel.* The success of the Funds will depend, in large part, upon the skill and expertise of the Principals. In the event of the death, disability, or departure of any of the Principals, the business and the performance of the Fund may be adversely affected. In addition, the day-to-day operations of an investment will generally be the responsibility of a management or advisory team. Although Castlelake will be responsible for monitoring the performance of each management and advisory team, there can be

no assurance that such team's management will be able to successfully operate such investment in accordance with the Funds' plans.

*Leverage.* Castlelake uses leverage for certain purposes in managing the Account portfolios (including short term credit facilities and non-recourse or limited recourse leverage). Leverage generally magnifies both the opportunities for gain (including through greater diversification) and the risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which state is difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. Although the use of leverage increases returns on investments if there is a greater return on the incremental investments purchased with the borrowed funds than the cost for such funds, the use of leverage decreases returns if it fails to earn as much on such incremental investments as it pays for such funds. The use of leverage in connection with acquisition of investments, or investments which may include securities of companies with leveraged capital structures, will result in material interest expense and other costs to the Accounts. In addition, leverage will increase the exposure of Fund investments to any deterioration in an asset's condition, industry and competitive pressures, an adverse economic environment and rising interest rates and could accelerate and magnify declines in the value of the investments of the Accounts in a down market. Similarly, the Funds may make investments that are unable to generate sufficient cash flow to meet principal and interest payments on their indebtedness. Accordingly, the value of the underlying investments could be significantly reduced or even eliminated due to further credit deterioration. In some cases, the Fund may need to call capital from investors or generate cash through other means, such as asset sales, to meet these obligations, which may cause loss or lower returns for the Funds.

The lenders that provide financing may apply discretionary covenants or repayment obligations which, if not met, may result in loss of financing and forced liquidations of investments at disadvantageous prices. Such discretionary covenants or repayment obligations may also impair the ability of the Accounts to finance future operations and capital needs. Furthermore, should the credit markets be tight at the time Castlelake determines that it is desirable to sell all or a part of an investment, the Fund may not realize the expected returns from the liquidation of such investment.

*Subscription Lines.* Castlelake's Funds generally enter into subscription line credit agreements with one or more lenders in order to finance investments and to pay Fund expenses. For administrative convenience and cash and liquidity management, capital calls, including those used to pay interest or principal on subscription lines, asset-backed facilities and other indebtedness, may be "batched" together into larger, less frequent capital calls, with a Fund's interim capital needs being satisfied by such subscription line credit agreements. Fund-level borrowing subjects investors to certain risks and costs. For example, because amounts borrowed under a subscription line typically are secured by pledges of Castlelake's right to call capital from the investors, investors may be obligated to contribute capital on an accelerated basis if the Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder. Moreover, any limited partner claim against the Fund would likely be subordinate to the Fund's obligations to a subscription line's creditors.

In addition, Fund-level borrowing will result in incremental partnership expenses that will be borne by investors. These expenses typically include interest on the amounts borrowed, unused commitment fees on the committed but unfunded portion of a subscription line, an upfront fee for establishing a subscription line, and other one-time and recurring fees and/or expenses, as well as legal fees relating to the establishment and negotiation of the terms of the borrowing facility. Because a subscription line's

interest rate is based in part on the creditworthiness of the relevant Fund's investors and the terms of the Offering Documents, it may be higher than the interest rate a limited partner could obtain individually. To the extent a particular investor's cost of capital is lower than the Fund's cost of borrowing, Fund-level borrowing can negatively impact an investor's overall individual financial returns even if it increases the Fund's reported net returns in certain methods of calculation.

Interest will accrue on subscription lines at a rate lower than the preferred return of a Fund. Where a preferred return begins to accrue after capital contributions are due (regardless of when a Fund borrows, makes the relevant investment, or pays expenses) and ceases to accrue upon return of these capital contributions, the use of borrowing to shorten the period between calling and returning capital limits the amount of time the preferred return will accrue. In circumstances where there is not a preferred return on funds borrowed in advance or in lieu of calling capital, Fund-level borrowing typically will reduce the amount of preferred return to which investors would otherwise be entitled had capital been called, and thus could result in Castlelake receiving carried interest sooner than it would without borrowing. As a general matter, use of leverage in lieu of drawing down commitments enhances internal rates of return (either negative or positive) to investors in a Fund. In light of the foregoing, Castlelake has an incentive to fund the acquisition and ongoing capital needs of investments and the Funds with the proceeds of such borrowings in lieu of drawing down commitments on a just-in-time basis.

In addition, when the management fee is calculated as a percentage of invested capital, an investor would generally pay management fees on borrowed amounts used to fund investments that have not yet been realized even though such amounts would not accrue preferred return as described above. Therefore, Castlelake generally earns a management fee whether it calls capital to fund an investment or uses the subscription line without calling capital. It is expected that the costs relating to the establishment and/or maintenance of a subscription line of credit will be significant, and there can be no assurance that the benefits to investors will be commensurate with such costs.

A credit agreement may contain other terms that restrict the activities of a Fund and the investors or impose additional obligations on them. For example, a subscription line may impose restrictions on Castlelake's ability to consent to the transfer of an investor's interest in the Fund. In addition, in order to secure a subscription line, Castlelake may request certain financial information and other documentation from investors to share with lenders. Castlelake will have significant discretion in negotiating the terms of any subscription line and may agree to terms that are not the most favorable to one or more investors.

Fund-level borrowing involves a number of additional risks. For example, drawing down on a subscription line allows the general partner to fund investments and pay partnership expenses without calling capital, potentially for extended periods of time. Calling a large amount of capital at once to repay the then current amount outstanding under a subscription line could cause short-term liquidity concerns for investors that would not arise had the relevant general partner called smaller amounts of capital incrementally over time as needed by a Fund. This risk would be heightened for a limited partner with commitments to other funds that employ similar borrowing strategies or with respect to other leveraged assets in its portfolio; a single market event could trigger simultaneous capital calls, requiring the limited partner to meet the accumulated, larger capital calls at the same time. A Fund may also utilize Fund-level borrowing when the general partner expects to repay the amount outstanding through means other than limited partner capital, including as a bridge for equity or debt capital with respect to an investment. If the Fund ultimately is unable to repay the borrowings through those other means, investors would end up with increased exposure to the underlying investment, which could result in greater losses.

*Potential Restrictive Covenants.* The Funds may enter into credit facilities with one or more lenders in order to finance their operations (including the acquisition of investments) and the Funds' subsidiaries and investments are permitted to enter into various other financing arrangements and other transactional agreements. These financing arrangements will contain a number of common covenants that, among other things, might restrict the ability of the Funds and their subsidiaries and investments to: (i) acquire or dispose of assets or businesses; (ii) incur additional indebtedness; (iii) make expenditures, distributions or capital calls; create liens on assets; (iv) enter into leases, investments or acquisitions; (v) consent to transfers; (vi) restrict the use of information; (vii) make amendments to the Offering Documents; or (viii) engage in certain transactions with affiliates, and otherwise restrict activities of the Funds and investments without the consent of the lenders or other counterparties. In addition, these financing arrangements can require the Funds and their subsidiaries and investments to maintain specified financial ratios and comply with tests, including minimum interest coverage ratios, maximum leverage ratios, minimum net worth and minimum equity capitalization requirements. For credit facilities or other agreements in which multiple Funds are permitted as co-borrowers, a default by one Fund or the inability by one Fund meet applicable covenants or ratios would limit the activities and have other adverse consequences on the other Funds, including triggering cross-default provisions.

*Risks Associated with Bankruptcy Cases.* Investment and lending activities, particularly involving companies in distressed situations, may result in the Fund becoming involved as a creditor in bankruptcy cases. In addition, the Funds may purchase securities or assets of, or claims against, companies in bankruptcy. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. Generally, the duration of a bankruptcy case can only be roughly estimated. This process can involve substantial legal, professional and administrative costs to investors; it 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 reorganize and may be required to liquidate assets.

Upon a bankruptcy filing by an issuer of debt, the U.S. Bankruptcy Code imposes an automatic stay on payments of its pre-petition debt. The debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during the reorganization and may be adversely affected by an erosion of the issuer's fundamental value. If an issuer were to seek relief under chapter 11 of the Bankruptcy Code, the Bankruptcy Code authorizes the issuer to restructure the terms of repayment of a class of debt even if the class fails to accept the restructuring as long as the restructured terms are "fair and equitable" to the class and certain other conditions are met. There exists a significant risk that Castlelake's influence with respect to a class of securities can be lost by the inflation of the number and the amount of such claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority over the claims of certain creditors (for example, claims for taxes) may be quite high. Similar laws in foreign jurisdictions protect borrowers in similar ways and may often be less favorable to a lender than U.S. laws.

*Debt Securities.* Debt securities are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk) and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). With bonds and other fixed income securities, a rise in interest rates typically causes a fall in values, while a fall in interest rates typically causes a rise in values. The risk of debt securities can vary significantly depending upon factors such as the issuer (e.g., investors' perceptions of the creditworthiness of the issuer, the issuer's financial performance, perceptions of the issuer in the

marketplace, performance of management of the issuer, the issuer's capital structure and use of financial leverage and demand for the issuer's goods and services) and maturity. For example, the issuer of a security or the counterparty to a contract may default or otherwise become unable to honor a financial obligation. The debt securities of some companies may be riskier than the stocks of others.

*Interest Rate Fluctuations.* The prices of fixed-income and other portfolio investments tend to be sensitive to interest rate fluctuations and unexpected fluctuations in interest rates could cause the corresponding prices of positions to move in directions which were not initially anticipated. For example, as interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. In addition, interest rate increases generally will increase the interest carrying costs to the Fund, including if an investment is levered.

*Interest Rate Risk.* Credit portfolios are subject to interest rate risks; changes in the prevailing market interest rates could negatively affect the value of Fund investments. The ability of companies or businesses in which Funds may invest to refinance debt instruments or repay debt obligations (including making payments to Funds as a creditor with respect thereto) may depend on their ability to obtain financing. Volatility and instability in the securities market may also increase the risks inherent in the Funds' investments. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate credit instrument and falling interest rates will have a positive effect on price. This risk will be greater for long-term securities than for short-term securities. In addition, interest rate increases generally will increase the interest carrying costs to the Fund. Adjustable-rate instruments also react to interest rate changes in a similar manner, although generally to a lesser degree. Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules. Additional factors that may affect market interest rates include inflation, slow or stagnant economic growth or recession, unemployment, international disorders and instability in domestic and foreign financial markets. The Funds will periodically experience imbalances in their assets and liabilities as a result of changes in interest rates. In a changing interest rate environment, the Funds may not be able to manage this risk effectively. If a Fund is unable to manage interest rate risk effectively, the Fund's performance could be adversely affected. While Funds may seek to do so, they are not required to hedge interest rate risk.

Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules. Additional factors that may affect market interest rates include inflation, slow or stagnant economic growth or recession, unemployment, international disorders and instability in domestic and foreign financial markets. Castlake expects that it will periodically experience imbalances in its assets and liabilities as a result of changes in interest rates. In a changing interest rate environment, the Fund may not be able to manage this risk effectively. If the Fund is unable to manage interest rate risk effectively, the Fund's performance could be adversely affected. While the Fund may seek to do so, it is not required to hedge its interest rate risk.

*Benchmark Rates.* Many financial instruments use or may use a floating rate based on the London Interbank Offered Rate, or "LIBOR," which is the offered rate for short-term Eurodollar deposits between major international banks. On July 27, 2017, the head of the United Kingdom Financial Conduct Authority announced a desire to phase out the use of LIBOR by the end of 2021. On March 5, 2021, the United



Kingdom Financial Conduct Authority formally announced the respective dates for the cessation (or loss of representativeness where a “synthetic” LIBOR continues to be available) for most of the LIBOR benchmark settings published by the ICE Benchmark Administration (with such benchmark settings ceasing publication (or losing representativeness) on December 31, 2021 or June 30, 2023, respectively). The new regulatory powers included in the Financial Services Act 2021 enable the United Kingdom Financial Conduct Authority to, among other things, designate a critical benchmark, such as LIBOR, to direct a methodology change so that, in certain circumstances, such designated benchmark is published on a “synthetic” basis. On June 23, 2021 the United Kingdom Government announced that it intended to legislate to provide the United Kingdom Financial Conduct Authority with further regulatory powers to manage and direct any wind-down period prior to eventual LIBOR cessation, in particular to help deal with “tough legacy” contracts, and that it intends to bring forward further legislation to supplement these measures by reducing the scope for uncertainty or litigation that may arise from the exercise of the powers. On June 24, 2021, the United Kingdom Financial Conduct Authority launched a consultation paper in relation to its proposed decision to use its new powers to require the ICE Benchmark Administration to continue the publication of certain “synthetic” LIBOR settings, in certain circumstances.

There remains uncertainty regarding the impact of the upcoming cessation (or loss of representativeness) of LIBOR and the nature of any replacement rate. As such, the potential effect of a transition away from LIBOR on the Fund or any of the Fund’s investments cannot yet be determined. The upcoming cessation (or loss of representativeness) of LIBOR, or any currency and tenor combination thereof, could have an adverse impact on the Fund.

*Distressed Securities.* The Funds may purchase, directly or indirectly, securities and other obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such purchases may involve a substantial degree of risk and may not show any return for a considerable period of time. In fact, many of these securities and investments ordinarily remain unpaid unless and until the company reorganizes and/or emerges from bankruptcy proceedings, and as a result may have to be held for an extended period of time. A wide variety of considerations, including, for example, the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain mandatory or discretionary consents from various governmental authorities or others may affect the value of these securities and investments. The uncertainties inherent in evaluating such investments may be increased by legal and practical considerations which limit the access of Castlelake to reliable and timely information concerning material developments affecting a company, or which cause lengthy delays in the completion of the liquidation or reorganization proceedings. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial distress is unusually high. There is no assurance that Castlelake will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation, investors may lose their entire investment or may be required to accept cash or securities with a value less than the original investment.

*Defaulted Securities.* The Funds may invest in the securities of, and trade claims against, companies involved in bankruptcy proceedings, reorganizations and financial restructurings and may have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject investors to litigation risks or prevent the investors from disposing of securities. In a bankruptcy or other proceeding, the investors as creditors may be unable to enforce their rights in any collateral or may have security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors.

While Castl lake will attempt to avoid taking the types of actions that would lead to equitable subordination (as discussed above) or creditor liability, there can be no assurance that such claims will not be asserted or that the Funds will be able to successfully defend against them. Because other investors may purchase the securities of these companies for the purpose of exercising control or management, the Funds may be at a disadvantage to the extent that the Funds' interests differ from the interests of these other investors.

*Trade and Other General Unsecured Claims.* The Funds may acquire interests in claims of trade creditors and other general unsecured claim holders of a debtor ("trade claims"). Trade claims generally include, but are not limited to, claims of suppliers for goods delivered and not paid, claims for unpaid services rendered, claims for contract rejections and claims related to litigation. Trade claims are typically unsecured and may, in unusual circumstances, be subordinated to other unsecured obligations of the debtor. The repayment of trade claims is subject to significant uncertainties, including potential set-off by the debtor as well as the other uncertainties described herein with respect to other distressed securities. An investment in trade claims and high-risk receivables may also entail special risks including, but not limited to, fraud on the part of the assignor of the trade claim as well as logistical and mechanical issues which may adjust the underlying claim and/or affect the ability to collect the claim in whole or in part.

*High-Yield Securities.* The Funds may invest in "high-yield" bonds and preferred securities which are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be greater risk with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration or general economic conditions. Further, the yields and prices of such securities may tend to fluctuate more than those of higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which they can be sold.

*Privately Traded Securities and Instruments.* Privately traded securities and instruments, including investments in companies undergoing debt restructurings and recapitalized companies, involve a high degree of business and financial risk. Such companies may have highly leveraged capital structures, require substantial additional capital to support expansion or to achieve or maintain a competitive position, produce substantial variations in operating results from period to period or operate at a loss. In addition, such investments may subject the Funds to risks that differ in type or degree from those involved with publicly held investments. Such risks may include, among other things, less liquidity and less transparency. Moreover, there will be no readily available market for such investments, and hence, most of such investments will be difficult to value. Although Castl lake may seek protective provisions, including, possibly, board representation, in connection with certain of its private equity investments, to the extent it takes minority positions in companies in which it invests, Castl lake may not be in a position to exercise control over the management of such companies. Private equity investments may have extended holding periods of several years and there can be no assurance that a viable exit mechanism will be available at the end of the anticipated holding period.

*Equity Securities.* The Fund will make investments in equity securities, which involve a number of significant risks, including the risk of dilution, limited liquidity in the secondary trading market and subordination to debt securities or holders of senior equity securities. The Fund's investment in equity securities could be subject to dilution as a result of the issuance of additional equity securities. An issuer

may issue preferred securities or other classes of common securities with voting and conversion rights which could adversely affect the voting power of the Fund's equity securities and could reduce the value of the Fund's equity securities. The issuer could increase the number of equity holders entitled to distributions without simultaneously increasing the size of the issuer's asset base. If an issuer created and issued preferred securities with a distribution preference over the Fund's equity securities, payment of any distribution preferences of outstanding preferred securities would reduce the amount of funds available for the payment of distributions on the Fund's equity securities. An equity investment may fail to appreciate and may decline in value or become worthless, and the Fund's ability to recover its investment will depend on the issuer's success. Even if an investment in equity securities is successful, the equity securities may be subject to restrictions on resale during periods in which it could be advantageous to sell them and the Fund's ability to realize the value of its investment may be dependent on the occurrence of a liquidity event, such as a public offering or the sale of the issuer. In addition, any gains that the Fund realizes on the disposition of any equity interests may not be sufficient to offset any other losses the Fund experiences. The Fund may be unable to recover its investment in the event that the issuer is unable to meet its obligations to holders of debt and other senior securities or becomes subject to a bankruptcy process.

*Preferred and Convertible Securities.* Investments in preferred and/or convertible equity or debt securities involve special risks, such as the risk of deferred distributions, credit risk, illiquidity and limited voting rights. Preferred securities may permit the issuer to defer distributions for a stated period without any adverse consequences to the issuer. If the Fund owns a preferred security that defers distributions, the Fund may be required to report income for tax purposes before it receives such distributions. Preferred securities are generally subordinated to debt securities in terms of priority to income and liquidation payments, and therefore will be subject to greater credit risk than an investment in debt securities. Preferred securities may be substantially less liquid than many other securities, such as common stock. Generally, preferred security holders have no voting rights, subject to limited exceptions (e.g., with respect to matters that would materially and adversely impact the holder of the preferred securities).

*Hybrid Securities.* The Fund may obtain exposure to an issuer or asset by investing in hybrid instruments, which contain characteristics of both a debt security and an equity security. Therefore, hybrid securities are subject to the risks of equity securities and the risks of debt securities. The terms of hybrid instruments may vary substantially, and certain hybrid securities may be subject to similar risks as preferred stocks, such as interest rate risk, issuer risk, dividend risk, call risk and extension risk. The claims of holders of hybrid securities of an issuer are generally subordinated to those of holders of traditional debt securities in bankruptcy, and thus hybrid securities may be more volatile and subject to greater risk than traditional debt securities and may in certain circumstances even be more volatile than traditional equity securities. At the same time, hybrid securities may not fully participate in gains of their issuer and thus potential returns of such securities are generally more limited than traditional equity securities, which would participate in such gains. Hybrid securities may also be more limited in their rights to participate in management decisions of an issuer. Certain hybrid securities may be more thinly traded and less liquid than either publicly issued equity securities or debt securities, especially hybrid securities that are "customized" to meet the needs of particular investors, potentially making it difficult for the Fund to sell such securities at a favorable price or at all. Any of these features could cause a loss in market value of hybrid securities held by the Fund.

*Derivative Instruments.* The Fund is permitted to use a variety of financial instruments, such as derivatives, options, interest rate swaps, caps and floors, futures, and forward contracts and expects to use them for

limited hedging purposes, primarily for currency hedging, interest rate hedging, and hedging related to certain types of investments, such as oil and gas prices. The derivative instruments may be volatile and may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. When used, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the Fund from achieving the intended hedging effect or expose the Fund to risk of loss. Use of derivative instruments presents various risks, including the following:

- Tracking – When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent Castllake from achieving the intended hedging effect or expose the Fund to the risk of loss.
- Liquidity – The market for derivative instruments may be limited and prevent prompt liquidation of positions, subjecting the Fund to the potential for greater losses.
- Leverage – Trading in derivative instruments can result in incurring synthetic leverage that may magnify the gains and losses experienced by the Fund.
- Over-the-Counter (“OTC”) Instruments – Derivative instruments that may be purchased or sold by Castllake can include instruments not traded on an exchange. OTC options, unlike exchanged-traded options, are bilateral contracts with price and other terms negotiated by the buyer and seller. The risk of nonperformance by the obligor on such an instrument may be greater and the ease with which Castllake can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. In some cases, particularly in the context of OTC instruments, hedging arrangements will subject the Fund to the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts may expose the Fund to additional liquidity risks.

Furthermore, in connection with a hedging transaction, the Fund may be required to allocate funds or provide a credit line to be used as collateral for the margin capital of the hedge. Such a requirement would tie up a portion of the Fund’s capital that could otherwise have been available for investment. This could cause the Fund to be less invested than it would have been absent such hedging transaction and could possibly result in an adverse effect on the overall returns of the Fund.

*Mortgage-Backed and Asset-Backed Securities.* Mortgage-backed securities represent an interest in a pool of mortgages. When market interest rates decline, more mortgages are refinanced, and the securities are paid off earlier than expected. Prepayments may also occur on a scheduled basis or due to foreclosure. When market interest rates increase, the market values of mortgage-backed securities decline. At the same time, however, mortgage refinancing and prepayments slow, which lengthens the effective maturities of these securities. As a result, the negative effect of the rate increase on the market value of mortgage-backed securities is usually more pronounced than it is for certain other types of fixed-income securities. Asset-backed securities are structured like mortgage-backed securities, but instead of mortgage loans or interests in mortgage loans, the underlying assets may include, but are not limited to, such items as motor vehicle installment sales or installment loan contracts, leases of various types of real and personal property, and receivables from credit card agreements. The ability of an issuer of

asset-backed securities to enforce its security interest in the underlying assets may be limited, and such securities are subject to many of the same risks as mortgage-backed securities.

Asset-backed securities are also subject to risks associated with their structure and the nature of the assets underlying the security and the servicing of those assets. Payment of interest and repayment of principal on asset-backed securities is largely dependent upon the cash flows generated by the assets backing the securities and, in certain cases, supported by letters of credit, surety bonds or other credit enhancements. The values of asset-backed securities may be substantially dependent on the servicing of the underlying asset pools and are therefore subject to risks associated with the negligence by, or defalcation of, their servicers. Furthermore, debtors may be entitled to the protection of a number of state and federal consumer credit laws with respect to the assets underlying these securities, which may give the debtor the right to avoid or reduce payment. In addition, due to their often-complicated structures, various asset-backed securities may be difficult to value.

*Tenant Protection and Affordable Housing.* Affordable housing and tenant protection regulations may limit the Fund's ability to increase rents and pass through new or increased operating expenses to tenants. Certain states and municipalities have adopted laws and regulations imposing restrictions on the timing or amount of rent increases and other tenant protections. The Fund may operate and acquire assets in areas that either are subject to these types of laws or regulations or where such laws or regulations may be enacted in the future. Such laws and regulations limit the Fund's ability to charge market rents, increase rents, evict tenants or recover increases in operating expenses and could make it more difficult for the Fund to dispose of assets in certain circumstances.

The Fund may own debt or equity interests in affordable housing communities and other properties that benefit from governmental programs intended to provide housing to individuals with low or moderate incomes. These programs, which are typically administered by the United States Department of Housing and Urban Development ("HUD") or state housing finance agencies, typically provide mortgage insurance, favorable financing terms, tax credits or rental assistance payments to property owners. As a condition of the receipt of assistance under these programs, the properties must comply with various requirements, which typically limit rents to pre-approved amounts and impose restrictions on resident incomes. Failure to comply with these requirements and restrictions may result in financial penalties or loss of benefits. In addition, the Fund will typically need to obtain the approval of HUD in order to acquire or dispose of a significant interest in or manage a HUD-assisted property.

*Warrants.* The Funds may receive warrants, and in certain circumstances prior to exit, would be required to exercise warrants in order to hold the underlying securities. Warrants generally give the holder the right to receive, upon exercise, a security of the issuer at a stated price. Risks associated with the use of warrants and rights are generally similar to risks associated with the use of options. Unlike most options, however, warrants and rights are issued in specific amounts, and warrants generally have longer terms than options. The terms of warrants may limit the Fund's ability to exercise the warrants at such time, or in such quantities, as the Fund would otherwise wish.

*Non-U.S. Investments and Currencies.* Castlake invests on a global basis and may invest a significant portion of assets of the Funds in foreign assets, issuers or securities which may be restricted or controlled to varying degrees. This requires consideration of certain risks typically not associated with investing in U.S. assets, issuers or securities. These risks include, among other things, trade balances and imbalances and related economic policies, potential price volatility in, and relative illiquidity of, some non-U.S.

markets, unfavorable currency exchange rate fluctuations, potentially unsettled points of applicable governing law, capital repatriation regulations, imposition of exchange control regulation by the U. S. or foreign governments, U.S. and foreign withholding taxes, the application of complex U.S. and non-U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on the Funds and/or their investors with respect to the Fund's income and possible non-U.S. tax return filing requirements for the Funds and/or their investors, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalization of their industries, political difficulties, including expropriation of assets, confiscatory taxation and economic or political instability in foreign nations. Laws and regulations of foreign countries may impose restrictions that would not exist in the United States and may require financing and structuring alternatives that differ significantly from those customarily used in the United States.

Additional risks of non-U.S. investments include: (i) differing business cultures and legal regimes; (ii) less liquidity and smaller capitalization of securities markets; (iii) currency exchange rate fluctuations; (iv) higher rates of inflation; (v) controls on, and changes in controls on, foreign investment and limitations on the ability of an Account to exchange local currencies for U.S. dollars; (v) greater governmental involvement in and control over the economies; (vi) differences in auditing and financial reporting standards, which may result in the unavailability of material information about issuers; (viii) less extensive regulation of the securities markets; (vii) longer settlement periods for securities transactions; (viii) differences in tax regimes (including potential withholding obligations on proceeds paid from a Fund) and changes in tax treaties or U.S. tax law regarding foreign investments; (ix) less developed corporate laws regarding fiduciary duties and the protection of investors; (x) less publicly available information about certain non-U.S. companies and assets than would be the case for comparable companies in the United States; (xi) less well-developed regulatory institutions; (xii) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction; (xiii) civil disturbances; (xiii) economic dislocations in the host country; (xiv) less publicly available information about certain non-U.S. companies and assets than would be the case for comparable companies in the United States; (xv) less well-developed regulatory institutions; (iv) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction; (xvi) civil disturbances; (xvii) government instability; and (xviii) nationalization and expropriation of private assets. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to, or as uniform as, those that apply to U.S. companies. Banks and other counterparties in emerging markets may impose restrictions or require certain approvals that would not exist in the United States and may require extensive diligence (including in respect of anti-money laundering and know-your-customer or similar laws) that differ significantly from those in place in the United States.

Further, non-U.S. investment in securities of investments in certain of the countries in which the Fund may invest is restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude non-U.S. investment above certain ownership levels or in certain sectors of the country's economy and increase the costs and expenses of the Fund. Certain countries require governmental approval prior to investments by foreign persons or limit the amount of investment by foreign persons in a particular company, or limit investment by foreign persons to a specific class of securities or assets of a company that may have less advantageous terms than the classes available for purchase by nationals. Some countries require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. The Fund could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital or earnings, as well as by the application to the Fund of restrictions on investments. In addition, because the Fund's foreign

investments in other countries will likely be denominated in the currencies of such countries, a change in the value of these currencies against the U.S. dollar may well result in a corresponding change in the U.S. dollar value of the Fund's assets denominated in those currencies. Castlake is under no obligation to employ hedging techniques to minimize the currency risks.

Although Castlake may attempt to enter into certain currency hedges in the Accounts to mitigate currency risk, there is no guaranty the hedging will be successful or sufficient to protect the entire investment and any gain on such investment. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to, or as uniform as, those that apply to U.S. companies.

Because investments in other countries will likely be denominated in the currencies of such countries, any fluctuation in currency exchange rates will affect the value of the investments, and any restrictions imposed to prevent outflows of capital may make it difficult or impossible to exchange or repatriate foreign currency. Castlake may seek to hedge the foreign currency exposure, but such hedging strategies may not necessarily be available or effective and may not always be employed. Accordingly, the Funds, may at times be, directly or indirectly, subject to foreign exchange risks.

*Emerging Market Opportunities.* The Funds invest in assets or companies located or doing business in emerging market geographies. An emerging market geography is any country determined to have an emerging market economy, considering factors such as the country's credit rating, the development of its financial and capital markets and its political and economic stability. In addition, emerging markets may be commodity-dependent in nature and hold lower gross national products relative to more developed countries. Investing in emerging market opportunities includes all of the risks of non-U.S. investments noted above, but to an increased degree. Emerging markets may have governments that are less stable, markets that are less liquid and economies that are less developed and variability in the ability to enforce legal rights and remedies legal jurisdiction. These markets may have heightened volatility, greater political, regulatory, legal and economic uncertainties, less liquidity, dependence on particular commodities or international aid, high levels of inflation, restrictions on foreign investment and restrictions on repatriation of investment income and capital. Future economic or political situations could lead to price controls, forced mergers, expropriation, nationalization or the creation of government monopolies. The Funds could be adversely affected by any delay or obstacle resulting from its investment in an emerging market opportunity. Economic problems in a single country are increasingly affecting other markets and economies. A continuation of this trend could adversely affect global economic conditions and world markets and, in turn, could adversely affect the Funds' investments.

Emerging markets may be commodity-dependent in nature and hold lower gross national products relative to more developed countries. Emerging markets are generally heavily dependent upon international trade or the health of particular economies and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. In emerging markets, there is often less government supervision and regulation of business and industry practices, stock exchanges, over-the-counter markets, brokers, dealers, counterparties and issuers than in other more established markets. Any regulatory supervision that is in place may be subject to manipulation or control. Many emerging markets have less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors. Some emerging market countries do not have mature legal systems comparable to those of more developed countries. Moreover, the process of

legal and regulatory reform may not be proceeding at the same pace as market developments, which could result in investment risk. Legislation to safeguard the rights of private ownership may not yet be in place in certain areas, and there may be the risk of conflict among local, regional and national requirements or authorities.

Additionally, many lending activities in emerging markets are regulated with varying (if any) levels of requirements that often are subject to inconsistent judicial interpretations. These requirements include consumer protections (such as disclosure requirements and usury), licensing (such as non-bank lending and debt collection) and supervision (in particular banking and insurance). There often is a tension between these regulatory regimes and U.S. federal and state regulation.

*Emerging Market Financial Standards.* In addition, accounting, auditing and financial reporting standards, practices and disclosure requirements that prevail in emerging markets generally are not as high as standards in developed countries. Specifically, valuation of assets, depreciation, exchange differences, deferred taxation, contingent liabilities and consolidation may be treated differently from accounting standards in more developed countries and there is an increased risk of fraud or other deceptive practices. Consequently, less information is typically available concerning companies located in emerging markets. Accordingly, the Fund's ability to conduct effective due diligence in connection with its emerging market investments and to monitor such investments may be adversely affected by these factors.

*Changes in the External Business Environment.* The failure to identify, plan and execute strategies to address changes in the external business environment could have a material adverse impact on the Fund's investments, especially with respect to its contracted assets. The revenue that the Fund will seek to generate from contracted assets is significantly dependent on short- and long-term fixed arrangements. Changes to public policy, laws or regulations (or interpretations thereof), customer behavior or technology could significantly impact the value of the contracted assets. Furthermore, changes in laws and regulations (or interpretations thereof) may, in certain cases, have retroactive effect and expose the Fund to additional costs or interfere with the Fund's existing financial and business planning. Such changes could also affect the Fund's opportunities to make additional investments in such assets and the potential return on the investments.

In some of the markets in which the Fund may operate, or in which the Fund may own assets, political instability, economic crisis or social unrest may give rise to a change in policies regarding long-term contracted assets with private institutions, like the Fund, in strategic sectors such as infrastructure. Any such changes could lead to modifications of the economic terms of the Fund's contracts or, in extreme scenarios, the nationalization of Fund's assets, which could have a material adverse effect on the Fund's business, financial condition, results of operations and cash flows.

Banks and other counterparties in emerging markets may impose restrictions or require certain approvals that would not exist in the United States and may require extensive diligence (including in respect of anti-money laundering and know-your-customer or similar laws) that differ significantly from those in place in the U.S.

*Commodity Investments and Price Volatility.* The Funds may invest in commodities or invest in portfolio investments whose operations are dependent on the price of commodities. Volatility of commodity prices may also make it more difficult for companies in which the Funds invest to raise capital to the extent the market perceives that their performance may be directly or indirectly tied to commodity prices. The price



of commodities has been, and is likely to continue to be, volatile and subject to wide fluctuations in response to many factors that are beyond the control of Castlelake or the Funds.

*Junior Mining Operational Risks.* Junior mining companies are subject to various operational risks, such as disruption of operations, mining, exploration or installation accidents, unanticipated operation and maintenance expenses, lack of proper asset integrity, underestimated cost projections, inability to renew or increased costs of rights of way, failure to obtain the necessary permits to operate and failure of third-party contractors to perform their contractual obligations. Thus, some junior mining companies may be subject to construction risk, acquisition risk or other risks arising from their specific business strategies and operations.

*Infrastructure Risks.* The Funds may invest in infrastructure assets. Such investments are subject to additional infrastructure sector risks, including: (i) the risk that technology employed will be not be effective or efficient; (ii) the risk of equipment failures, failure to perform according to design specifications, failure to meet expected levels of efficiency, fuel interruptions, loss of sale and supply contracts; (iii) changes in power or fuel contract prices, bankruptcy of or defaults by key customers, suppliers or other counterparties, and tort liability; (iv) risk of changes of values of infrastructure sector companies; (v) risks associated with employment of personnel and unionized labor; (vi) political and regulatory considerations and popular sentiments that could affect the ability of the Fund to buy or sell investments on favorable terms; and (vii) other unanticipated events which adversely affect operations. These and other inherent business risks could affect the performance and value of the Funds' investments.

Further, the use of infrastructure assets may be interrupted or otherwise affected by a variety of events outside Castlelake's control, including serious traffic accidents, natural disasters (such as fire, hurricanes, floods, tornadoes, tsunamis, windstorms, volcanic eruptions, earthquakes and typhoons), man-made disasters (including terrorism, war and riots), defective design and construction, slope failure, bridge and tunnel collapse, road subsidence, fuel prices, environmental legislation or regulation, general economic conditions, labor disputes, eminent domain and other unforeseen circumstances and incidents. Certain of these events have affected infrastructure assets in the past, and if the use of the infrastructure assets operated by portfolio investments is interrupted in whole or in part for any period as a result of any such events, the revenues of such portfolio investments could be reduced and the costs of maintenance or restoration as well as the overall public confidence in such infrastructure assets could be reduced. There can be no assurance that such portfolio investments' insurance would cover liabilities resulting from claims relating to the design, construction, maintenance or operation of infrastructure assets, lost revenues or increased expenses resulting from such damage. In some cases, project agreements could be terminated if the events described above were so catastrophic that they could not be remedied within a reasonable period or at all.

### **Additional Risks Relating to Vehicles**

*Vehicle Structure: Limited Liquidity and Recourse.* An investor's investment in a Vehicle is subject to the structure and terms of each Vehicle. Investors should have no expectation of a secondary market in securities or loans issued by a Vehicle, or that markets would provide investors with liquidity. The securities or loans issued by a Vehicle are limited recourse obligations; investors must rely on available collections from the collateral pledged by a Vehicle, as issuer, pursuant to the indenture and will have no other source of payment.

*Subordination.* Payments on the senior-most class(es) or tranches of a Vehicle's securities or loans are subordinate to the payment of certain fees and expenses payable to the servicer and other parties pursuant to the indenture, which in many cases may include payments to Castlake as the servicer. Payments of principal and interest on any junior classes or tranches of securities or loans are subordinated under the priority of payments to payments on any senior class of securities or other instruments. To the extent any losses are suffered by any securities or other instruments, those losses will be borne by each class of or tranche of securities or other instruments in order of subordination and according to the Vehicle's governing documentation. Accordingly, the most subordinated classes or tranches of securities or other instruments may not be paid in full and may be subject to 100% loss. In addition, the most subordinated class(es) or tranches of interests in a Vehicle's securities or loans represent highly leveraged investments and will be most affected by any changes of market value of the collateral, including, but not limited to, defaults, prepayments and other risks associated with the collateral.

*Remedies.* If an event of default occurs under a Vehicle's indenture, the controlling class (generally the most senior class of notes or tranche of loans then outstanding) will generally be entitled to determine the remedies to be exercised under the indenture. The interests of the controlling class of a Vehicle may be averse to those of the subordinated classes or tranches. In pursuing its interest, the controlling class will have no obligation to consider any possible effect on other interests. In addition, the junior-most class or tranche of securities or other instruments is not generally entitled to exercise remedies under the indenture, nor is the trustee generally obligated to act on behalf of the holders of these securities, loans or other instruments.

*Servicer.* The success of a Vehicle often relies to a significant degree on the quality of the servicer, as well as the costs thereof. While the servicer may often be Castlake, some Vehicles may engage third party servicers. Please see other risk factors discussing servicers.

*Sale of Collateral.* If an event of default occurs under a Vehicle indenture, there can be no assurance that the proceeds of any sale of collateral will be sufficient to pay in full transaction expenses and principal and interest on the securities or other instruments. In addition, once more senior classes or tranches have been paid in full a fluctuation in values and costs resulting from changes in supply and demand could impact the amount of proceeds received in the sale of remaining assets.

*Reinvestment Risk.* In certain circumstances, certain funds will be reinvested in additional or substitute assets. A number of factors, including the need to satisfy certain reinvestment criteria set forth in the indenture, may result in a lower yield on additional or substitute assets. In addition, due to significant restrictions set forth in the Vehicle indenture on the ability to buy and sell collateral, the issuer may be unable to buy or sell obligations or take other actions which might be in the best interests of the security or loan holders in the absence of these restrictions.

*Valuation.* For the Vehicles, Castlake is often responsible for arranging for relevant third-party valuation or assisting with the valuation in accordance with the Vehicle's Offering Documents. Valuation will depend on a variety of factors and actors that are not always within Castlake's control and valuation could at times be volatile.

## **Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding certain legal or disciplinary events that would be material to an evaluation of Castlelake or the integrity of Castlelake's management. Castlelake has no legal or disciplinary event responsive to this Item to report.

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

Castlelake is the investment manager for each of the Funds and the servicer for Vehicles. The general partner of Castlelake is RO Management, LLC, a Delaware limited liability company. Castlelake is a related person to the general partners or managing members to the Funds. Please see Item 6 of this brochure regarding performance-based fees that may be paid by the Accounts to its servicer, general partner or managing member.

Castlelake (UK), LLP ("Castlelake (UK)"), a United Kingdom limited liability partnership, is an investment adviser authorized and regulated by the UK Financial Conduct Authority. Castlelake (UK) provides sub-advisory investment management and research services to Castlelake. Castlelake (UK)'s corporate member is Castlelake Holdings (UK) Ltd., which is wholly owned by Castlelake.

Castlelake Aviation Holdings (Ireland) Limited, an Ireland private company limited, provides technical asset management services and remarketing support relating to aviation investments and also acts as a servicer for certain vehicles.

Castlelake Pte. Ltd., a Singapore private limited company, also provides technical asset management services and remarketing support relating to aviation investments.

## **Conflicts of Interest**

Investors should be aware that there will be occasions where Castlelake and its affiliates encounter conflicts of interest in connection with the Accounts' investment activities. Castlelake has established policies and procedures to address potential conflicts of interest in its good faith judgment, and maintains a Regulatory, Compliance and Conflicts Committee which helps evaluate potential conflicts that arise. Although Castlelake has established procedures to address such potential conflicts of interest, some of which are set forth herein, there can be no assurance that conflicts of interest will be resolved in a manner that is more favorable to the Funds. The following discussion enumerates certain of those conflicts of interest and more detailed discussion of conflicts may be contained within certain of the Offering Documents of the Accounts.

*Coordination Among the Accounts.* While Castlelake generally devotes substantially all of its time and attention as is reasonably necessary to manage, service and dispose of the investments and assets of the Accounts, it cannot and does not devote all of its time and attention to any single Account and it may devote time and attention to other matters. In addition, given that the investment strategies of Funds may be similar, different or competing investment offers may be provided by one Fund as compared to another Fund, which may lead to the Funds competing for investment opportunities (it being understood that this conflict of interest may not necessarily be resolved in favor of one fund). Castlelake will engage in investment activities for multiple Accounts and, to the extent permitted by Castlelake's compliance policies, act for its own account. Except as otherwise provided in a Fund's Offering

Documents, a Fund shall not have any rights in respect of investment activities of other Funds and these other investment activities can result in certain conflict of interest situations discussed below.

*Co-Investment Opportunities.* Where possible and appropriate based on the size of the opportunity and other factors, co-investment opportunities have been, and are expected in the future to be, offered to various Fund investors or to third parties, whether through collectively owned special purpose vehicles (“SPVs”) and otherwise. Conflicts of interest may arise in the allocation of co-investment opportunities, which may be made to one or more persons for any number of reasons as determined by Castllake in its sole discretion and may not be in the best interests of the Funds or of their respective individual investors. Such investments may involve risks not present in investments where a third-party is not involved, including the possibility that a third-party co-venturer or partner may at any time have economic or business interests or goals that are inconsistent with those of the Funds, or may be in a position to take action contrary to the investment objectives of the Funds, or that such third-party, co-venturer or partner may not ultimately invest or may fail to meet financial commitments, leaving a Fund responsible for such person’s share of fees or bridge financing incurred in contemplation of such person investing. In addition, a Fund may in certain circumstances be liable for actions of its third-party co-venturer or partner.

When co-investment opportunities are available, they will be allocated at the discretion of Castllake based on a variety of factors that may include: (i) prior expression of interest in co-investment opportunities by the prospective co-investor; (ii) legal, regulatory, accounting and tax considerations affecting co-investment participation in the particular co-investment opportunity; (iii) confidentiality concerns that may arise in connection with providing the prospective co-investor with specific information relating to the investment opportunity; (iv) past experiences with the potential co-investor, including the potential co-investor’s willingness and ability to respond promptly and/or affirmatively to prior co-investment opportunities and past investment record relating to co-investment opportunities offered to such prospective co-investor; (v) the size, sophistication and financial resources of the potential co-investor and its ability to efficiently and expeditiously participate in the investment opportunity; (vi) whether the profile and characteristics of the potential co-investor may have an impact on the viability or terms of the investment opportunity and the ability of the Fund to take advantage of such investment opportunity; (vii) potential strategic benefits to the portfolio investment if a potential co-investor participates (e.g., by virtue of such co-investors experience, expertise, knowledge, relationships or other criteria deemed relevant by the General Partner); and (viii) any other reason for including a potential co-investor as determined in the sole discretion of Castllake. Allocation of co-investment opportunities among Funds and other investors may not, and often will not, result in proportional allocations among investors that have expressed interest in co-investment opportunities. Co-investment opportunities may, and typically will, be offered to some and not to other Castllake investors, and the consideration of the factors set forth above may result in certain investors receiving multiple opportunities to co-invest while others expressing interest in co-investments may receive none. Castllake is also permitted to provide co-investment opportunities to third parties, e.g., sellers, company management, strategic and financial partners, finders, brokers or other sourcing persons, preferred stockholders, joint venture partners or lenders.

Third party co-investors may be required to pay management and performance fees, but Funds in a co-investment are not assessed any management or performance fees. Any fees (including management fees) or carried interest in respect of any co-investments paid to and/or received by Castllake or its affiliates will be retained by such persons and will not offset management fees payable by any Funds. Similarly, given that Castllake or its affiliates may be entitled to economics in respect of co-investments,

Castlelake may be incented to provide co-investment opportunities which may in turn cause Castlelake to devote meaningful time thereon. In addition, the Funds' participation in an investment in which co-investors also participate could be subject to tax or regulatory status of such co-investors and extraordinary events affecting such co-investors, which could result in adverse impact to the Funds and affect their participation in a portfolio investment. Further, expenses relating to potential co-investments that are not consummated may be borne by the Funds.

Assets of each co-investor may become exposed to the risk of claims involving one or more other co-investors, *e.g.*, a third party to a transaction may require the co-investing Accounts to agree to joint and several liability, or certain types of investments may be pooled together in a common SPV without segregation of liabilities arising from different investments even though not all participating accounts participate in all investments entered into by the SPV. Castlelake intends to mitigate such risks as it deems appropriate from time-to-time, such as through cross-indemnification arrangements, but there can be no guarantee that such risks can be mitigated in full. Any co-investments in private transactions are expected to be made through collectively owned SPVs or otherwise as determined by Castlelake in its discretion (provided that the Funds do not effectively bear any additional management fees or incentive compensation in favor of Castlelake or its affiliates in connection investments in any such SPVs). All or a portion of the management fees determined with respect to the Funds may be debited at the level of any such SPV and any such amounts shall offset the management fees payable by the Fund on a dollar-for-dollar basis. Investments through an SPV with the multiple Funds can expose such Funds to the risk of claims involving one or more of the other Funds. Castlelake mitigates such risks as it deems appropriate from time-to-time, such as through cross-indemnification arrangements among participating Funds, but there can be no guarantee that such risks can be mitigated in full. Castlelake will be subject to a potential conflict of interest when acting on behalf of multiple Funds with divergent interests. To the extent a Fund co-invests with other Funds or third parties in the same investment and Castlelake or its affiliates receive any transaction fees with respect to such investment, Castlelake will, to the extent such fees are subject to offset in the relevant Offering Documents, offset solely the portion of such fees that is proportionate to the Fund's interest in such investment against the Management Fees, as opposed to the full amount of such fees received by Castlelake or its affiliates.

*Allocation of Investment Opportunities.* Castlelake currently manages, and is expected in the future to manage, Accounts with similar or overlapping investment mandates and will need to allocate certain relevant investment opportunities among those Accounts. When a limited opportunity to acquire or dispose of an investment which is either suitable for, or already held by, more than one Account with similar investment objectives, Castlelake seeks to allocate investment opportunities in such a manner that, to the extent feasible, no Account receives consistently more or less favorable treatment than any other Account. Castlelake is subject to a potential conflict of interest with respect to making allocation determinations, including because the compensation structures in the Funds can differ (*e.g.*, different management fees and offsets). Castlelake's allocation policy (as amended from time-to-time) requires it to treat the Funds in a fair and equitable manner over time when allocating investments. Certain investment opportunities suitable for one Fund are likely also to be suitable for other Funds. When an investment opportunity generally falls within the investment mandate of more than one Fund, Castlelake assesses whether the investment opportunity is appropriate for the Funds (including the amount of the allocation) based on factors including but not limited to: Fund investment restrictions and objectives (including those set forth in the relevant Offering Documents, where applicable), suitability, investment strategy, risk profile, targeted return profile, portfolio and/or counterparty diversification and concentration, fund size and available capital, investment horizon (capital obligations, funding or distribution requirements), status of

the investment as an add-on or follow-on investment with respect to any Fund's portfolio, duration of investment and timing in the fund's life cycle, asset composition, cash level (if any), liquidity needs, availability of leverage or financing, applicable tax sensitivity and other structural and regulatory considerations. When relevant, Castlelake will be solely responsible for determining whether an investment is suitable for an Account depending on its targeted internal rate of return as underwritten by Castlelake's portfolio managers, among other factors.

Castlelake's allocation of investment opportunities among the Accounts may not always, and often will not, be proportional. Therefore, such allocations may be more advantageous to certain Accounts versus others. While Castlelake will allocate investment opportunities in a way that it believes in good faith is fair and equitable over time, there can be no assurance that the actual allocation of an investment opportunity, if any, or terms on which the allocation is made, will be as favorable to Accounts as they would be if the conflicts of interest to which Castlelake is subject did not exist. Allocation may vary from pro rata where Castlelake determines another allocation is appropriate in light of the factors noted above.

Subject to Castlelake's policies, Castlelake and its Principals and employees may carry on investment activities for their own accounts and for family members and friends who do not invest in the Funds and may give advice and recommend securities to the certain Funds which may differ from the advice given to, or investments recommended or bought for, other Funds even though their investment objectives may be the same or similar. Further, Castlelake and its Principals employees will carry on investment activities that are different than the investment activities of the Funds.

*Allocation of Fees and Expenses.* A variety of potential conflicts of interest arise when determining allocations of various fees and expenses among the Funds that are involved in the same investment. Castlelake, in its sole discretion, will allocate fees and expenses in accordance with the Funds' governing documents and in a manner that it believes in good faith is fair and equitable to the respective Funds under the circumstances and considering such factors as it deems relevant. The allocations of such expenses may not be, and in certain cases will not be, proportional, and any such determinations involve inherent matters of discretion, e.g., in determining whether to allocate pro rata based on number of Funds or co-investors receiving related benefits or proportionately in accordance with asset size (including with respect to potential investments or co-investments that are not consummated). Further, because certain expenses are paid for by the Funds and/or their portfolio investments or, if incurred by Castlelake, are reimbursed by the Funds and/or their portfolio investments, Castlelake will not necessarily always seek out the lowest cost options when incurring (or causing the Funds to incur) such expenses. Additionally, as noted above, Castlelake may structure a co-investment opportunity such that the proposed participants (including third party co-investors) in such co-investment opportunity do not bear any broken deal or related expenses, or Castlelake may not be able to find third party co-investor(s), in which case the Fund would generally be expected to bear additional expenses related thereto.

*Pooled Indebtedness.* The Funds may incur indebtedness, leverage or other obligations and/or guarantees on a joint, several, cross-collateralized (which may be on an investment-by-investment or portfolio-wide basis) or joint and several basis in order to acquire a portfolio of assets or to obtain more favorable financing terms. While such arrangements may be joint and several with respect to the Funds, such arrangements may not necessarily impose reciprocal joint and several obligations on such Funds. As a result of the incurrence of indebtedness on a joint and several or cross-collateralized basis, the Funds may be required to contribute amounts in excess of its pro rata share, including additional capital to make up for any shortfall if such other Funds (or co-investors) are unable to or are not required to repay

their pro rata share of such indebtedness. Moreover, the Funds could also lose their interests in performing investments in the event such performing investments are cross-collateralized with poorly performing or non-performing investments. In addition, a third party to a transaction may require the Funds to agree to joint and several liability, which will give rise to similar risk and conflicts. Also, any co-investment through a SPV may expose the Accounts to additional risk given that the SPV may not have segregation of liabilities arising from different investments, and the Accounts can have liability regardless of whether it participates in all investments made by such SPV or otherwise in excess of its participation percentage if any other SPV participant defaults on its obligations.

*Securitization Vehicles.* Accounts are permitted to, alongside one or more other Accounts, gain exposure to underlying assets (including aircraft assets) through lending to, or acquiring debt and/or equity interests in, any platform, warehouse and/or securitization-like vehicle or facility, including by contributing, or committing to contribute, assets, investments and/or cash consideration to such facilities or vehicles in exchange for interests therein. In furtherance of the foregoing, Accounts are permitted to, alongside one or more other Accounts, utilize credit facilities, repurchase agreements, warehouse facilities, securitizations and other forms of financing to finance assets, which would be expected to involve similar structures as contemplated by the foregoing sentence. To the extent multiple Accounts participate, such Accounts may hold or acquire positions in (or otherwise gain exposure to, directly or indirectly) investments or assets in which the other Accounts has invested and/or has otherwise contributed to such facility or vehicle. Such investments or transactions by multiple Accounts have the potential to be coincident with or precede one another and may be at different valuations. Accounts may invest in classes or tranches of securities in such facility or vehicle on different terms than other Accounts. As such, the interests of all of the Accounts in such a facility or vehicle may not be aligned.

*CLOs.* Funds may, from time to time, invest in CLOs, including an CLO's sponsored by Castlake (an "Affiliated CLO"). Castlake would generally act as a collateral manager or servicer ("Collateral Manager") of such Affiliated CLO. The fact that the management fees Castlake may receive from an Affiliated CLO are based on the size of the assets of that vehicle could create a conflict of interest. In particular, the Collateral Manager (potentially Castlake) could have an incentive to cause the Affiliated CLO to hold investments that have poor prospects for improvement in order to receive ongoing fees in the interim and, potentially, a more likely or larger fee or distribution if the value of such assets appreciates in the future. Similar conflicts of interest exist in Castlake's exercise (or failure to exercise) the Accounts' rights as holder of a CLO (and/or otherwise creating additional tranches of the CLO further subordinating the Accounts' equity or investment in such Affiliated CLO equity, including rights relating to the refinancing of such Affiliated CLO), approval of amendments and removal of the Collateral Manager.

Accounts or third parties may invest in Affiliated CLO classes or tranches of securities other than direct or indirect equity interests in an Affiliated CLO or on different terms. The interests of the Accounts investing in different classes or tranches of securities of the Affiliated CLO are particularly acute in the case of financial distress of the Affiliated CLO. The ability of the Collateral Manager to recommend actions that are in the best interests of the Accounts might be impaired as a result of competing interests that are more fully discussed as capital structure conflicts.

Furthermore, in instances where partners, officers or employees of Castlake or its affiliates serve as directors of certain borrowers the loans of which are collateral of the Affiliated CLO, they will be required to make decisions that they consider to be in the best interests of such borrower. In certain circumstances, such as in situations involving bankruptcy or near insolvency of a borrower, actions that may be in the

best interests of such borrower may not be in the best interests of the Affiliated CLO, and vice versa. Accordingly, in these situations, there may be conflicts of interest between an individual's duties as a partner, officer or employee of Castlake or its affiliates and such individual's duties as a director of such borrower.

*Consolidation of Existing Investments.* In certain circumstances Castlake will restructure or refinance existing investments to allow for, among other things, optimal financing, facilitate new capital and/or to facilitate the return of capital to Funds which have passed their commitment period, term and/or have liquidity needs. This can include refinancing existing investments, in whole or part, into new structures in combination with assets from other Funds, as well as assets from term or warehouse facilities in other Funds. Any consolidation of assets relating to these restructurings or refinancing will be valued on a fair and consistent basis in accordance with Castlake's valuation policies and procedures.

*Investments in Transactions by Multiple Funds.* Investments by multiple Funds in private transactions are generally made through collectively owned special purpose vehicles ("SPVs") or otherwise as determined by Castlake (provided that a Fund will not, except as otherwise provided in the Offering Documents, effectively bear any additional management fees or incentive compensation in favor of Castlake or its affiliates in connection with its investment in any such SPVs). In some cases, all or a portion of the management fees determined with respect to the Fund may be debited at the level of any such SPV or other intermediate investment vehicle and any such amounts will generally offset the management fees payable by the Fund. Investment through an SPV may expose the Funds to additional risk given that the SPV may not have segregation of liabilities arising from different investment, and a Fund can have liability regardless of whether it participates in all investments made by such SPV or otherwise in excess of its participation percentage if any other SPV participant defaults on its obligations. In addition, a third party to a transaction may require Funds to agree to joint and several liability. Castlake will be subject to a potential conflict of interest when acting on behalf of multiple clients with divergent interests. Castlake will mitigate these risks as it deems appropriate from time-to-time, such as through cross-indemnification arrangements among participating Funds, or valuation procedures in the event of potential dilution, but there can be no guarantee that these risks can be mitigated in full.

In connection with the foregoing, Castlake may use one SPV as the "lender of record", which would provide loans (or otherwise participate in loan transactions) on behalf of multiple Accounts (it being understood one Account may not participate in all of the loans or investments held by such SPV). In addition to the risks set forth above, using one SPV may result in an Account being liable with respect to not only its own share of any obligation but also the share attributable to the other Accounts (including, for the avoidance of doubt, an obligation attributable to an investment or loan the Account und did not participate in). Accordingly, as a result of the incurrence of any such obligation, an Account may be required to contribute amounts in excess of its pro rata share of any obligation (or may otherwise suffer a loss of value due to forfeiture or otherwise), including additional capital to make up for any shortfall if such other Accounts are unable to repay their pro rata share.

*Investments at Different Levels of Capital Structure.* The Funds are permitted to invest in securities or other instruments of the same issuer (or affiliated group of issuers) having a different seniority in the issuer's capital structure or otherwise in different classes of an issuer's securities. In addition, in some circumstances, Castlake will originate an investment (for instance, a unitranche loan) with a counterparty and then use its discretion to structure such investment into multiple new investments with different levels of seniority, which investments may be held by different Funds and/or third parties and



which may create conflicts when making decisions on terms. To the extent a Fund hold securities or loans that are different (including with respect to their relative seniority) than those held by other Funds, Castl lake is likely to be presented with decisions when the interests of the two (or more) Funds are in conflict. In these circumstances, Castl lake's duties to each of the Funds may, and in certain circumstances will, conflict. If such a capital structure conflict did arise, Castl lake would expect to take reasonable steps to mitigate the conflict, which may include obtaining third-party pricing or validation of pricing of the debt instrument from a third party, requiring a competitive process prior to agreeing to complete the transaction, requiring a certain level of third-party participation in the transaction, carrying out arm's length negotiations through incentivized management teams at the portfolio company level or requiring the lender act on its own behalf in a default situation. Castl lake will in its discretion take steps to reduce the potential for adversity between the Funds, including by causing the Funds to take certain actions that, in the absence of such conflict, it would not take. In some cases, a decision by Castl lake to take any such step could have the effect of benefiting one Fund (and, incidentally, may also have the effect of benefiting Castl lake or an affiliate) and therefore may not have been in the best interests of, and may be adverse to, another Fund.

For example, if the issuer requires amendments or waivers or becomes insolvent or suffers financial distress, there may be a conflict between the interests insofar as the issuer may be unable to satisfy the claims of all classes of its creditors and security holders. Because of the different legal rights associated with debt and equity of the same issuer, Castl lake may face a conflict of interest in respect of the advice it gives to, and the actions it takes on behalf of Account investing in debt (e.g., the terms of debt instruments, the enforcement of covenants, the terms of recapitalizations and the resolution of workouts or bankruptcies) as compared to the action taken for Accounts investing in the equity. Under these circumstances it will not always be feasible for Castl lake to reconcile the conflicting interests of the Accounts in a way that protects all of the interests. In certain circumstances Accounts may be prohibited from exercising (or Castl lake may deem it appropriate to refrain from exercising) voting or other rights in order to mitigate the relevant potential conflicts, notwithstanding the fact that the investment(s) of one Fund or the other may be subject to creditor claims regarding subordination of interests.

In addition, given that the investment strategies of other Accounts fall within an Accounts' investment strategy, such other Accounts may offer potential counterparties different or competing investment offers as compared to the Account, which may lead to the Account and the other Accounts competing for investment opportunities (it being understood that such arrangements may give rise to conflicts of interest that may not necessarily be resolved in favor of the relevant Accounts).

*Interfund Transactions.* From time-to-time Castl lake may determine that a purchase, sale, lease or financing relating to an investment from one or more of the Accounts to another is in their respective best interests. For example, one Fund may acquire investments from unrelated sellers and may re-offer a portion of such investments to affiliated investment vehicles (including CLOs, warehouses and other pooled vehicles), including those that were subject to legal, fiscal or other restrictions on participating in the original transaction. In addition, one Fund may acquire an investment from an unrelated seller in anticipation of offering it to another Fund at a future date if the latter Fund does not have available capital to make the investment when it is being marketed by the unrelated seller. This may also arise, for example, if one Fund is being wholly or partially liquidated, while another account has cash available for investment. In particular, the Funds can exit or partially exit an investment or a series of related investments through contribution of such assets to an affiliated securitization vehicle or other entity established by Castl lake or its affiliates in which the Funds would, among other investment structures and types of holdings,

typically retain a relatively small investment in a junior tranche on a non-recourse basis while the senior tranches would typically be offered to third parties, including banks, but could also be held initially or through market purchases by other Accounts. For a securitization vehicle, the Funds would typically hold junior tranches on a non-recourse basis while the senior tranches would typically be offered to third parties, including banks. In addition, Castllake has established warehouse financing facilities in order to finance aircraft purchases for multiple participating Funds. Because the lenders in the warehouse facilities have cross collateralized aircraft financed by the participating Funds, it is possible that an investment made by one Fund may not be able to satisfy its debt obligations to the warehouse facility and could rely on the cash flows from investments owned by other Funds that are utilizing the warehouse facility. Further, a Fund may acquire investments from, or sell investments to, an affiliate of Castllake that is in the business of originating and syndicating loans or other assets or originate and syndicate such loans or other assets itself and sell them to other Funds or third parties, provided that Castllake concludes that such transaction is in the best interests of each participating account. Castllake has established a process to monitor and then reconcile these interfund situations should they arise. For other entities, the Funds would typically hold direct or indirect equity interests in the entity established to hold the assets.

While these transactions with related parties expand the universe of opportunities that are available to Castllake, all Funds will not necessarily derive a benefit from each such transaction, and the Funds and the other parties to a particular transaction may have divergent interests. In order to minimize the conflict, Castllake conducts any such transactions on an arms-length basis, including documentation/rationale to support fair market value of the purchase, lease or contribution of assets. In addition, Castllake reports annually to Funds' advisory committees regarding any key interfund transactions. If required by the Offering Documents, Castllake will consult with or seek advice by, or consent from the advisory committees of the relevant Funds.

*Aggregation of Trades.* Situations can arise in multiple Funds seek to acquire or dispose of an investment, but it is not possible under prevailing market conditions to fill the entire order for more than one of these accounts at the same price that would be obtainable if an order were placed for only one of the accounts. In such situations, whenever transactions are executed on behalf of the Funds, Castllake's policy is to seek an allocation of the trades among the participating accounts in such a manner that, to the extent feasible, no participating account receives less favorable treatment than any other participating account. In order to achieve this objective in situations involving contemporaneous trades, Castllake is authorized to arrange for the placement of orders on a combined basis so that each participating account experiences the same average price for the trade. The combination or coordination of orders as described above will not be deemed to constitute participating accounts acting in concert with respect to the securities purchased or sold or otherwise constituting a group for any other purpose.

*Investments in Existing ABS Securitization-Like Vehicles.* Funds may purchase interests in or invest in, in each case, on the secondary market, certain ABS securitization-like vehicles established by Castllake or its affiliates in which other Funds have exited, or have partially exited, an investment by contributing their assets to such vehicle. The other Funds typically will, among other investment structures and types of holdings, retain an investment in a junior tranche on a non-recourse basis. Castllake and/or its affiliates will generally act as servicer and receive compensation from such ABS securitization-like vehicles. Castllake will be entitled, directly or indirectly, to collect and retain any such compensation (whether in the form of servicing, advisory, disposition or any other type of fee or expense) with respect to any such ABS securitization-like vehicles without the need to offset such compensation against a Fund's

management fee except as otherwise provided in a Fund's Offering Documents. In addition, any and all costs and expenses or other amounts that are borne or paid by a Fund, directly or indirectly, in respect of its investment in such ABS securitization-like vehicle will not offset the management fee.

*Pooled Asset Purchases.* There may, in some cases, be opportunities for Funds to acquire a portfolio of assets from a seller on a pooled basis (i.e., a pool of assets), whether required by the seller or deemed advisable by the Fund in light of commercial and/or other considerations. Accordingly, there may be circumstances where there is a seller who is seeking to dispose a pool or combination of assets where more than one Fund participate as a buyer in a single or related transactions with a particular seller where all or certain of such assets are specifically allocated (in whole or in part) to specific Funds as part of the same transaction or related transactions. The allocation of such assets generally would be based on Castllake's determination of, among other things, the type of asset, age of asset, expected risk-return of such asset, lease status (if applicable), access to financing and other factors. In any such case the asset-specific purchase price paid to a seller would be allocated among the Funds based on a determination by Castllake as to the value of the assets, which may or may not be consistent with how the purchase price was allocated as a result of the negotiations between or among, the seller and Castllake.

Given that only certain of the assets in the portfolio may be suitable for each Fund, such transactions raise potential conflicts of interest, including where the investment of each Fund is necessary or otherwise being used to complete the transaction or to support the value (or may support the value) of another Funds' assets in the portfolio. These conflicts are heightened to the extent the relevant assets do not have a readily ascertainable value, and there generally can be no assurance that the price at which such transactions are entered into, or the price allocated to the assets that the Fund will acquire, represents what would ultimately be the asset's fair value. The foregoing paragraphs also hold true with respect to collective dispositions by Fund and one or more of the other Funds of a pool of assets. Castllake intends that any such transactions be conducted in a manner that it believes in good faith to be fair and equitable to the Fund under the circumstances.

*Aviation Financing.* Under certain circumstances, an Account may make a loan to, or an investment in, an airline (or any other Person) that is expected to sell aircraft to, or lease or purchase aircraft from, one or more of the other Accounts, or in an airline (or any other Person) that has already leased or purchased, or concurrently will lease or purchase, aircraft from, or sold aircraft to, one or more of the other Accounts or vice versa. As a result, Castllake and the participating Accounts may have conflicting interests in negotiating the terms of such financing, purchase or other agreements. In negotiating the purchase price of the aircraft and/or pool of aircraft and/or the price of the financing, the rate of interest or stated dividend yield of such securities or loan, the nature of the covenants and other terms and conditions of such securities or loan, the Accounts and/or Castllake may have interests that conflict. In that regard, actions may be taken by the Accounts and/or Castllake that are adverse to the other Accounts. Such conflicts could also exist in the negotiations of amendments or waivers or in a workout or bankruptcy as well as the enforcement or lack thereof of any payment default. It is possible that in a bankruptcy proceeding, an Accounts' interests could be adversely affected by virtue of the other Accounts' involvement or vice versa. It may not be feasible for Castllake to reconcile the conflicting interests of the Accounts in a way that protects the interests of all Accounts. An opportunity to provide senior asset-based funding to airlines or other purchasers of aircraft could be presented. Castllake expects this financing activity to generally focus on new deliveries or young aircraft, but potential purchasers of aircraft from certain Accounts may also seek financing. Certain Accounts could provide an alternative financing source to enable additional purchasers to transact and potentially drive better results for the selling account.

While not expected by Castllake, there can be no guarantee that the availability of financing from other Accounts would not be a condition to a purchaser bidding on an aircraft being marketed by an Account.

*Aviation Lending.* There may be opportunities to provide senior asset-based funding to airlines or other purchasers of aircraft. Castllake expects this financing activity to generally focus on new deliveries or young aircraft, but potential purchasers of aircraft from the Accounts may also seek financing. The Funds may provide an alternative financing source to enable additional purchasers to transact and potentially drive better results for the selling Fund or Funds. Castllake does not expect that the availability of financing from one Castllake Fund or Vehicle to be a condition to a purchaser bidding on an aircraft being marketed. The potential conflict of interest in purchaser financing is commercially mitigated by the auction process run by an investment team primarily focused on aviation lending within Castllake's aviation leasing platform, as well as by the depth and scope of Castllake's sales activities that generate many offers.

*Servicing Fees from Vehicles.* Castllake and/or its affiliates enter into servicing agreements with the Vehicles, debt facilities and other financings and may do so for certain Fund investments or entities. Pursuant to these servicing agreements, Castllake and/or its affiliates receive certain fees. Because these fees are paid at the Vehicle, facility or other financing level, both equity owners, such as the Funds, and third-party debt owners or lenders bear such fees. Castllake is subject to a conflict of interest in creating these Vehicles, facilities and other financings because of its ability to receive additional compensation by retaining all or a portion of these fees. Castllake addresses this conflict by ensuring that servicing fees attributable to the Funds' investments are offset against each Fund's management fee so that, in addition to the payment of management fees, a Fund does not effectively bear the fees with respect to its allocable portion of its investment in the Vehicles or other entity, provided that in some instances the offset may be limited as further detailed in the Offering Documents. As the servicing fee offset is no longer applicable if a Fund no longer has an investment in the Vehicle or other entities or when a Fund ceases to pay management fees, Castllake could have an incentive to either monetize the Fund's equity position and/or delay the process of monetizing the investments subject to such financings. In addition, Castllake receives additional compensation when there is no offset of servicing fees associated with the debt or investments not held by the Funds. Castllake retains all servicing fees that are paid by any third parties with respect to investments in which the Funds also invest.

*Engagement of Service Providers and Other Personnel.* Castllake or its affiliates expect to exercise discretion to recommend that the Funds or their portfolio investments contract for services with various service providers, potentially including, among others: (i) Castllake or an affiliate, which may include other portfolio investments of the Funds and at rates determined or substantively influenced by Castllake or its affiliates; (ii) an entity with which Castllake or its affiliates or current or former personnel has a relationship or from which such person derive a financial or other benefit (including another Fund); or (iii) an investor in one of the Funds or its affiliates. This subjects Castllake to potential conflicts of interest, because although it intends to select service providers that it believes are aligned with its operational strategies and that will enhance portfolio investment performance, Castllake may have an incentive to recommend the related or other person because of its financial or business interest. Additionally, there is a possibility that Castllake, because of such incentive or for other reasons (including whether the use of such persons could establish, recognize, strengthen or cultivate relationships that have the potential to provide longer-term benefits to Castllake or the Funds), may favor such retention or continuation even if a better price and/or quality of service provider could be obtained from another person. Whether or not Castllake has a relationship with or receives financial or other benefit from

recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Castlelake may also, from time-to-time, employ personnel with pre-existing ownership interests in or who were employed by portfolio investments owned by the Fund or the other funds; conversely, former personnel or executives of Castlelake may serve in significant management roles at portfolio investments (or sellers thereof) or service providers recommended by Castlelake. Similarly, Castlelake and/or its personnel maintain relationships with (or may invest in) financial institutions, service providers and other market participants, including managers of private funds, banks, brokers, advisors, consultants, finders (including executive finders and portfolio investment finders), executives, attorneys, accountants, institutional investors, family offices, lenders, current and former employees, and current and former portfolio investment executives, as well as certain family members or close contacts of these persons. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Castlelake and/or the Funds, as well as potentially co-invest with certain Accounts. Castlelake may have a conflict of interest with the Funds in recommending the retention or continuation of a third-party service provider to the Funds or a portfolio investment owned by the Funds if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more Funds, will provide Castlelake information about markets and industries in which Castlelake operates (or is contemplating operations) or will provide other services that are beneficial to Castlelake. Castlelake may also have a conflict of interest in making such recommendations in that Castlelake has an incentive to maintain goodwill between itself and the existing and prospective portfolio investments for the Accounts that Castlelake advises, while the products or services recommended may not necessarily be the best available to the portfolio investments held by the Funds.

*Service Company Fees.* The Funds are expected to invest in assets or other investments subject to fees or profit-sharing arrangements payable, on a temporary or permanent basis, to servicers of specific assets ("Service Companies") based on specialized expertise, systems and processes (including trade secrets) and other relevant considerations, as well as the performance of the specific assets that they service. The Service Companies are expected to provide asset sourcing or referral, asset or collateral management, debt servicing, facility management, loan origination, administration and/or due diligence services. Further, Castlelake expects to establish, capitalize, provide working capital for and own, in whole or in part, Service Companies (each, "Platform Servicing Company" and, collectively, the "Platform Servicing Companies"), which, subject to certain oversight by Castlelake, is generally anticipated to be operated on an independent basis. The Platform Servicing Companies are expected to provide all or a subset of the services as described above, including but not limited to, loan, referral, collateral, reporting, diligence, loan and other investment (e.g., real assets) origination, administration and/or other similar debt-related and other investment-related services, on a temporary or permanent basis, to one or more of the Accounts. Loans and other investments originated and/or sourced (and ultimately serviced) by a Platform Servicing Company could be appropriate for the Accounts, and Castlelake expects to allocate such loans or other investments to the Accounts. Any origination, upfront, servicing, administration, incentive based, or other similar fees paid to, or profit sharing or expense reimbursement arrangements entered into by, a Platform Servicing Company will not offset the Management Fee (including, for the avoidance of doubt, where such fees are shared by the Platform Servicing Company, in whole or in part, with Castlelake or its affiliates), except as otherwise expressly provided in the Offering Documents.

Such services are typically provided pursuant to service or management agreements between the Funds (or an SPV or Vehicle in which the Funds own an interest) and the Service Companies. These agreements can provide for the payment of servicing (including collateral management, debt servicing, facility management, administration and loan origination) or other fees (which are in addition to Castllake's management fees and carried interest and are generally not subject to an offset except as provided below with respect to affiliated Service Companies (other than the Platform Servicing Companies, the fees to which, for the avoidance of doubt, will not offset the Management Fees)) that may be determined in accordance with one or more of the following methods: (i) a percentage of the value of the assets being serviced; (ii) a percentage of the equity invested in the assets being serviced; (iii) a percentage of the cash flows from the assets being serviced; (iv) a percentage of the net return from the assets being serviced; or (v) a flat fee per asset serviced or service. It is possible that certain Service Companies receive incentive compensation, even though the Funds, as a whole, do not have net capital appreciation. Castllake will face a conflict of interest in selecting and/or replacing a Service Company given its ownership interest in any Platform Servicing Company and will be incented to utilized Platform Servicing Companies.

*Affiliated Servicing Fees.* Castllake and/or its affiliates (including any Platform Servicing Company) expect to act as Service Companies and receive compensation from certain of the Accounts' investments (such as via asset backed debt vehicles) and/or third parties, including, without limitation, collateral management, debt and other investment servicing, facility management, administration and disposition fees from credit and other investment providers in connection with the Funds' investments in accordance with the underlying financing documents or other agreements with respect to the relevant entities. Any fees payable to a Platform Servicing Company will not offset the Management Fees or otherwise reduce any fees or expenses paid to Castllake and/or its affiliates other than as described above. Castllake is subject to a conflict of interest because of its ability to receive additional compensation by retaining all or a portion of these fees. Fees payable to any affiliated Service Companies (other than any Platform Servicing Companies other than as described above) may be structured (but will not always be structured) so that the Fund does not effectively bear any such amounts with respect to its allocable portion of the applicable investments. Castllake addresses this conflict through special allocation of the relevant fees to investors other than the Funds, or if the Funds are subject to such fees payable to Castllake or its affiliates (other than the Platform Servicing Companies), such amounts (net of related expenses) will be applied to offset the management fee payable to Castllake by each Fund, subject to each Fund's Offering Documents. In the case of servicing (including collateral management, debt servicing, facility management, administration and loan origination) or disposition fees received by Castllake or its affiliates in connection with a Fund's investments (excluding fees that accrue to other Funds or their portfolio companies or investments and fees paid to any Platform Servicing Companies, each of which will not offset Castllake's management fee other than as set forth in the Offering Documents), a portion of such fees attributable to that Fund's equity investment will be offset against Castllake's management fee, subject to each Fund's Offering Documents. However, Castllake's management fee will not be offset by any portion of servicing or disposition fees attributable to leverage utilized in connection with any Fund investments. For example, if equity contributed by Accounts subject to an offset represents 50% of the acquisition cost and the remainder is financed through borrowing, only 50% of the servicing and disposition fees received by Castllake or its affiliates will offset the Management Fee. In determining the amount of leverage with respect to each investment, Castllake will be subject to a potential conflict of interest in light of its ability to retain a portion of servicing and disposition fees attributable to the debt financed portion of the Fund's investments.

*Servicing to Third Parties.* In some cases, the Accounts may sell assets to financial buyers (e.g., hedge funds, business development corporations and other capital providers that invest in such assets), third parties or other counterparties that require servicing and asset management expertise of a third party, such as Castllake. In certain cases, such buyers may elect to continue Castllake's or its affiliates' servicing relationship with the assets. In such transactions, Castllake is exposed to a conflict because the transaction creates an incentive for Castllake to choose buyers for a Vehicle's or Fund's assets who will maintain the servicing relationship, which may create an incentive to sell the assets at a lower value than would otherwise be received (or earlier than would otherwise be the case). Additionally, when assets are sold by an Account, but Castllake or its affiliates maintain a servicing relationship with the assets, Castllake would generally be entitled to retain the servicing fees without the need to offset such fees against the applicable management fee. As a result, while Castllake's ability to provide servicing to a third-party purchaser may enhance an Account's exit opportunities, Castllake is subject to a conflict of interest in that it is presented with opportunities to use the Funds to generate additional sources of income for itself. Finally, Castllake may provide servicing and asset management to third parties on assets that are not and/or were not held by the Accounts. Third-party servicing may create an incentive for Castllake in determining whether the third-party or a Fund or Vehicle (whichever is applicable) will be provided with a lease or disposition opportunity. Castllake seeks to mitigate these conflicts through the application of its conflict-of-interest policies and procedures. Castllake does not generally market assets with servicing or asset management included and attached, but instead will respond with servicing options if a purchaser requires such to proceed with an attractive bid.

One or more affiliates of Castllake or Funds have and may establish a dedicated Service Company or other platform to provide a variety of technical and financial services to third parties, including via Platform Servicing Companies. Such third parties may compete with other Funds for investment opportunities. Castllake and/or certain Funds will be entitled to receive and retain all fees for providing such services to third parties, without reduction to the management fees payable to Castllake by other Funds. To the extent Castllake establishes any such Service Companies (including Platform Servicing Companies) on the basis of a Fund's investment platform, utilizing the resources of Castllake personnel and the relevant methodologies and expertise developed while providing similar services to the Fund, Castllake is subject to a potential conflict of interest in that it may be using Fund resources in generating additional sources of income for itself and its affiliated Service Companies. The revenue generated by third parties may also reduce expenses that would otherwise be required to be borne by the Fund. To the extent any of the Funds establish Service Companies to support an investment or investment platform, services may be provided to investments made by other Funds. This will result in one or more Funds being entitled to receive and retain fees for providing services to other Funds. In these circumstances, Castllake would expect to compare the cost and level of services provided with those available from third parties to ensure fair market arrangements.

*Transactions with Third Parties.* Castllake and its personnel devote time to pursuing opportunities for the Accounts including selling and re-leasing aircraft, which may be similar to the aircraft owned by other Accounts of Castllake. In such instances, the time required to pursue such opportunities on behalf of one Account could interfere with the time spent on the aircraft of a different Account. In addition, because the Accounts invest in, and divest from, the same (or similar) types of aircraft or assets, Castllake or its affiliates in certain cases will direct certain opportunities that fall within a the mandate of one Account to a different Account, or potentially to co-investors in certain scenarios (it being understood that these arrangements may give rise to conflicts of interest that may not necessarily be resolved in favor of a Fund).

*Transactions with Former Employees.* Former partners or employees of Castlelake provide Castlelake with access to certain investment opportunities suitable for one or more Funds. In addition, if Castlelake determines that any Funds should invest in any such investment opportunities, Castlelake may engage former employees to provide certain services to the Funds and/or portfolio investments. In connection with these services, it is expected that such former employees would receive payments from, or allocations or performance-based compensation with respect to, the Fund and/or its portfolio investments.

Payments, allocations or performance-based compensation paid to former employees or entities which they control pursuant to the arrangements described above will be treated as Fund expenses and will not be subject to the management fee offset provisions, nor provisions of Offering Documents governing transactions with affiliates Castlelake. In addition, certain former Castlelake partners will have the right or be offered the ability to co-invest alongside the Funds in the portfolio investments which the former employee sources or for which the former employee serves as an asset manager (and for which such former employee would generally be entitled to receive performance-related incentive fees, which will reduce the Funds' returns). Castlelake intends to mitigate any conflicts of interest by engaging former partners or employees only if it believes such engagement, based on the terms negotiated, is in the best interest of the Funds.

*Board Participation.* The investment programs of the Funds may from time-to-time enable Castlelake to place its representatives on creditors' committees and/or boards of certain companies in which the Funds have invested. While such representation may enable Castlelake to enhance the sale value, it may also prevent Castlelake from freely disposing of investments and may subject Funds to additional liability. The Funds will typically indemnify Castlelake, its affiliates, or any other person designated by any of them for claims arising from creditors' committee and/or board representation. Castlelake will attempt to balance the advantages and disadvantages of such representation when deciding whether and how to exercise its rights with respect to such companies, but the exercise of such rights could produce adverse consequences in particular situations.

Additionally, certain Castlelake employees serve on boards of directors of portfolio companies which arise from governance agreements negotiated at the time of investment or restructuring of an investment. Such employees are not permitted to receive and/or retain compensation in connection with officer or board of director roles. In many cases, the Funds may be the sole equity holder of a company and thus the board and its members will be aligned with the Funds interests. However, there may be instances when a Fund is not the sole equity holder, and in such instances conflicts of interest may arise for individuals serving as directors. These individuals would in such cases have fiduciary duties to the company that are in conflict with the interests of the Funds. Further, the service as a director may limit the Funds' ability to transact in the company's securities or prevent Castlelake from sharing information with investors in the Funds.

*Different Types of Investors.* The Accounts are often commingled entities, and their investors are expected to be comprised of a variety of domestic, foreign and tax-exempt investors, which may have conflicting investment, tax and other interests. The conflicting interests of investors may adversely impact the nature of investments made by Castlelake, the structuring or acquisition of investments and the timing of disposition of investments. Conflicts may arise in connection with decisions made by Castlelake regarding an investment that may be more beneficial to one investor than another, especially with respect to tax matters. Castlelake is generally not required to take into account individual investor



considerations in conducting the Funds' operations, except that certain side letters may require it to do so and Castlelake may impose such requirements on the Account as a whole.

*Disclosure of Information.* Certain investors in the Accounts will be subject to U.S. state public records or similar U.S. and non-U.S. freedom of information laws, which may compel public disclosure of confidential information regarding the Accounts, investments and investors. The amount of information about investments that is required to be disclosed has increased in recent years, and that trend may continue. To the extent that disclosure of confidential information relating to the Account or its portfolio investments results from interests being held by public investors, the Account may be adversely affected. Castlelake may, in order to prevent any such potential disclosure, withhold information otherwise to be provided to such public investors and may do so with respect to all investors. Conversely, potential future regulatory changes applicable to investment advisers and/or the accounts they advise could result in Castlelake and/or the Fund becoming subject to additional disclosure requirements the specific nature of which is as yet uncertain.

*Side Letters.* Castlelake has entered into, and may in the future enter into, Side Letters with certain investors in the Funds which provide those investors with different rights or terms, which may include, without limitation, (i) more favorable fee and other economic arrangements (including discounts and terms applicable in exchange for closing by a specified deadline, making a certain size capital commitment or other parameters) with respect to such investors, including, but not limited to, higher preferred return rates and/or lower carried interest or management fee rates; (ii) excuse or exclusion rights applicable to particular investments or withdrawal rights (with the consent of Castlelake) from the Fund, including without limitation, as a result of an investor's specific policies or certain violations of U.S. federal, state or non-U.S. laws, rules or regulations, such as so-called "pay-to-play" rules with respect to public pension plan investors (which may materially increase another investor's pro rata interest in that particular investment (in the case of an opt-out) or all future investments (in the case of a withdrawal) and may reduce the overall size of the Fund); (iii) extension of certain information rights or additional or modified reporting (including customized reports) to such investor, including, without limitation, to accommodate special regulatory or other circumstances of such investor, which will be time-consuming, divert the attention of personnel and the management teams of Castlelake and its affiliates and the costs of which will be borne the Fund and are likely to be material, including on a cumulative basis over the life of the Fund; (iv) prior consent of Castlelake to certain transfers by such investor or other exercises by Castlelake of its discretionary authority for the benefit of such investor; (v) special priorities, rights and economic and other terms with respect to co-investment allocation and participation; (vi) waiver of certain confidentiality obligations; (vii) consent rights to certain amendments to the Fund's governing documents; (viii) certain obligations or restrictions on Castlelake with respect to the exercise of its discretion on certain matters, including amendments, exercising default remedies and waiving confidentiality or terms; (ix) restrictions on, or special rights of such investor with respect to the activities of Castlelake; (x) rights or terms necessary in light of particular legal, regulatory or policy characteristics of an investor (including with respect to limitations on the ability to provide indemnification); (xi) certain adjustments with respect to economic provisions (including potential mandatory waivers of compensation as a result of certain violations of law with regard to public pension plan investors); (xii) additional obligations and restrictions of Castlelake and the Fund with respect to the structuring of any particular Investment in light of the legal, tax and regulatory considerations of particular investor (including with respect to alternative investment vehicles); (xiii) agreements to assist with the taking or defending of tax positions; (xiv) the right of Castlelake to waive any requirements of investors to execute acknowledgements or other documents in connection with any subscription line or other credit facility; (xv) agreement to various sovereign

immunity, jurisdiction and venue provisions applicable to certain governmental, sovereign, or other types of investors on behalf of Castlake and/or the Fund (which could limit the ability to initiate or maintain legal proceedings against certain investors in certain jurisdictions); or (xvi) any other matters described herein, which may be more favorable than those offered to any other investors. Castlake is generally not, subject to applicable law and various “most favored nations” provisions, under any obligation to give all investors notice of any side letters entered into absent an agreement to the contrary.

*Material Non-Public Information.* Castlake or its affiliates may acquire confidential or material non-public information or be otherwise restricted from initiating certain transactions. Because the Funds will not be free to act upon any such information, such Funds may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold. Castlake may choose to limit the information, or withhold certain information, that would otherwise be disclosed to investors in the Funds due to its confidential nature. To the extent any investor becomes aware of any such confidential or material, non-public information, such investor may be restricted with respect to its own investment or other activities and/or be subject to certain laws, regulations or rules with respect to such confidential or material, non-public information. Castlake or the Accounts may also be subject to confidentiality, other agreements or applicable law with or related to investments, which may prohibit Castlake from disclosing certain information to the investors in the Accounts.

*Valuation.* The Funds hold positions in non-marketable investments or other investments for which independent quotations are unavailable or are not reliable indications of the fair value of such Funds’ position. Castlake is permitted to value such positions in its discretion, and the Funds are not required to obtain independent appraisals or valuations of any such positions. The process of valuing investments for which reliable market quotations are not available is based on inherent uncertainties and the resulting values may differ from values that would have been determined had an active market existed for such investment and may differ from the prices at which such investments ultimately may be sold. The exercise of discretion in valuation by Castlake may give rise to conflicts of interest, including in connection with determining the amount and timing of distributions of carried interest and the calculation of management fees, servicing fees and facility management fees (and other payments to Castlake), as well as impacting the determination of the allocation of certain costs and expenses. In addition, Castlake or its affiliates have an incentive to value such investments at a higher level in order to enhance performance reporting.

*Time and Attention.* None of Castlake, the Principals or any employees of Castlake are required to devote their entire time and attention to the affairs of any one Account, and they will engage in investment activities for other Accounts, as well as other activities not on behalf of any Account. Castlake, the Principals and employees of Castlake will spend such time and attention as deemed necessary and appropriate, as determined by Castlake, on each such Account.

*Fringe Benefits.* Castlake and its respective personnel can be expected to receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of the Funds that will neither be subject to an offset against any management fees payable to the Funds nor will otherwise be shared with the Funds, investors and/or portfolio companies and which may create a conflict to select an option that may be more expensive than other suitable options. For example, airline travel or hotel stays incurred as Fund or account expenses typically result in cash rebates, “miles,” “points” or credit in loyalty/status programs, and such benefits and/or amounts will, whether or not de minimis or difficult to value, inure exclusively to the Castlake and/or such personnel (and not the Funds, investors and/or

portfolio companies) even though the cost of the underlying service is borne by the Funds, investors and/or portfolio companies.

*Placement Agents.* Castlelake may utilize one or more placement agents. Placement agents do not act as investment advisers, municipal advisors, or fiduciaries to potential purchasers in connection with the investments into the Funds. A placement agent would not be advising an investor regarding whether a Fund is more appropriate for an investor's investment needs than other similar funds that may be available. Potential investors must make their own investment decisions. In making those decisions, potential investors should be aware that the placement agents will receive a placement fee from Castlelake (or an affiliate) that is generally based upon the amount subscribed for by certain investors. Castlelake or the Funds are generally also responsible for certain costs and expenses (including travel) incurred by placement agents in connection with providing services. Investors should also consult with their own internal and external advisors before taking action with respect to any services, material or information provided to them by the placement agent. The placement agents may also seek to do business with and earn fees or commissions from Castlelake or the Funds and their portfolio companies, as well as with other third-party fund sponsors that may have similar or different investment objectives as the Funds. Examples of such business may include, without limitation: provision of financing or investment banking services; lending or arranging credit; provision of prime brokerage; and placement services. Accordingly, placement agents may be influenced by an interest in such current or future fees and commissions, including differentials in the placement fees that are offered by other third-party fund sponsors for which the placement agent acts as placement agent. In addition, certain affiliates or employees of the placement agent might invest in a Fund on their own behalf and/or on behalf of their clients. Potential investors should consider these potential conflicts in making their investment decisions. By investing in the Fund, each investor will be deemed to have consented to these potential conflicts and acknowledged that these potential conflicts are not material to its decision to provide such consent.

*No Limitations on Activities of Investors.* The Accounts generally do not limit the ability of investors (other than affiliates of Castlelake to the extent provided in the Offering Documents) to engage in any activities, including activities that may be competitive with the Accounts. The investors may also seek to do business with and earn fees or commissions from the Castlelake and the Accounts and their investments. Examples of such business may include, without limitation: provision of financing or investment banking services; lending or arranging credit; provision of prime brokerage; and placement services. Castlelake expects to enter into letter agreements with certain investors recognizing their interest in providing such services.

*Legal Counsel.* Castlelake may appoint the same service provider to perform services for some or all of the Accounts and for Castlelake and its affiliates. In certain circumstances, such a service provider may have conflicting interests, which will not necessarily be resolved in favor of the Accounts. For instance, legal counsel often represents Castlelake solely with respect to the specific matters as to which it has been retained and consulted by Castlelake, including certain matters with respect to the Accounts. Other matters may exist that could have a bearing on the Accounts and underlying portfolio investments. Legal counsel is not providing any advice, representation, warranty or other assurance of any kind as to any matter to any investor in the Accounts.

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

*Code of Ethics and Personal Trading Policy.* Castllake has adopted a Code of Ethics and Conflicts of Interest Policy for all employees of the firm describing its commitment to a high standard of business conduct, and fiduciary duty to its Funds. These policies require that all of Castllake's employees and partners act in a professional and ethical manner. Persons subject to these policies are subject to, among other things, various restrictions relating to their purchase or sale of securities. These restrictions include pre-clearance and disclosure requirements, and general prohibitions on transactions in securities in certain circumstances, including when in possession of material non-public information; transactions in securities of issuers on Castllake's restricted list; and acquisition of securities in initial public offerings. There are also restrictions on the acquisition by persons subject to these policies in private placements, which acquisitions require the prior approval of Castllake's Compliance personnel and the satisfaction of certain conditions. A copy of Castllake's Code of Ethics will be provided upon request by investors in a Fund.

The Code of Ethics also addresses the fiduciary duties expected of the persons subject to the Code, including confidentiality obligations, gift and entertainment policies, and restrictions on outside business activities.

Castllake employees are, in certain instances, permitted to trade for their own accounts in securities which are recommended to and/or purchased for the Funds. Because Castllake permits such personal trading, this creates the conflict that employees could use their knowledge of pending client transactions in an attempt to benefit their own personal transactions. For example, if an employee owns a security the employee knows Castllake will be selling out of client accounts, the employee could sell the personal holding ahead of time in an effort to obtain a higher price than might exist when Fund holdings are sold. To address certain conflicts related to personal trading, the Code of Ethics requires pre-approval of many types of personal securities transactions. Because Castllake does not prohibit employees from investing in the same securities in which Funds invest, Castllake's Compliance personnel monitor the periodic personal securities transactions and holdings reports in an effort to ensure that employees do not personally benefit from, or try to take advantage of, their knowledge of upcoming buys and sells by the Funds. In general, given the nature of the Funds' investments and the monitoring by the compliance team of the limited personal securities activities of our employees, Castllake does not believe as a practical matter that employees will be able to benefit personally from such knowledge.

*Gifts.* Castllake personnel from time-to-time receive or give certain gifts and gratuities from or to broker-dealers, service providers, asset managers, counterparties or other persons with whom Castllake, its affiliates or Funds do business (including portfolio brokers). Receipt of such gifts and gratuities might be viewed as causing a conflict of interest for Castllake in selecting brokers and dealers and other service providers. It is a violation of Castllake's Code of Ethics for employees to offer or accept inappropriate gifts, favors, entertainment, special accommodations, or other things that could be viewed as overly generous and could influence their decision-making. To address certain conflicts related to receipt or giving of gifts, the Code of Ethics requires pre-approval of gifts of more than a *de minimis* (\$250) value.

*Time and Attention of Principals.* The Principals generally intend to devote substantially all of their business time and attention to Castllake, which primarily includes the management and servicing of the various Accounts. However, the Principals also expect to spend time to organize, sponsor, manage and operate additional investment funds and related investment and business activities (subject to any

limitations described in the relevant Partnership Agreements). The Principals are also permitted to pursue certain other business activities outside of the Accounts, as well as charitable, professional and industry activities and personal investing.

## **Item 12 - Brokerage Practices**

*Selection of Brokers.* Securities transactions are executed by brokers selected by Castlelake in its sole discretion. Castlelake will take into account certain factors, including, but not limited to: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the level of trading expertise for the particular type of investment at hand; the operational efficiency with which transactions are affected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker.

*Soft Dollars.* As a practical matter, the receipt of research from the broker-dealers that execute Castlelake's transactions is not a material factor in the selection of such brokers. To the extent consistent with Castlelake's obligation to seek best execution, and all other considerations being equal, Castlelake may place trades with broker-dealers who provide Castlelake with their own research ("proprietary research"). This determination is informal and is subject to the discretion of Castlelake's head trader. There are no formal or informal commission targets for the broker-dealers that provide Castlelake with research. Castlelake receives the following types of proprietary research: reports and commentary on companies, industries and the economy; and access to broker-dealer research analysts to discuss companies. Castlelake believes this research benefits all of the client accounts and does not seek to allocate the research proportionately to the specific accounts whose trades are with the broker-dealer that provides the research. Obtaining this research benefits Castlelake because it does not have to produce or pay for the research itself. As a result, Castlelake has an incentive to select or recommend a broker-dealer based on Castlelake's interest in receiving the research, rather than on the Funds' interest in receiving most favorable execution. However, as noted above, Castlelake does not believe that its receipt of proprietary research is a significant consideration in its selection of broker-dealers to execute transactions.

*Best Execution.* Castlelake seeks best execution of transactions for client accounts in such a manner that is the most favorable under the circumstances. Although Castlelake generally seeks competitive commission rates, it will not necessarily pay the lowest commission. Given the differences in market structures or the characteristics of financial instruments, it is not possible to identify and apply a uniform standard of, and procedure for, best execution that would be valid and effective for all types of instruments. With the understanding that certain other factors, such as liquidity and complexity of the instrument, the Funds have given the discretionary mandate that the best possible price available may not always represent best execution. Furthermore, in some circumstances there will only be a limited number of venues through which the transaction can be executed. In such cases best execution is generally demonstrated through achieving the desired transaction at a price deemed appropriate by Castlelake.

*Aggregation of Trades.* When attempting to execute transactions in marketable securities, as applicable, Castlelake will attempt to place orders for all eligible Funds on a combined basis so that each participating Fund experiences the same average price for the trade. If all such orders are not filled at the same price, they will be filled for each client at the average price. If it is not possible under prevailing market

conditions to fill the entire order for all Funds at the same price that would be obtainable if an order were placed for only one client, Castlelake will generally allocate the trade among the Funds with transaction costs being shared pro rata, or otherwise on a basis that it considers in good faith to be equitable.

*Cross Trades.* Transactions between Funds, with or without the involvement of a broker, are generally permitted provided they are conducted on an arms-length basis and Castlelake does not receive any brokerage compensation in connection with the transaction which is settled at then existing market prices. In addition, any such transactions would be conducted in accordance with Castlelake's internal policies and controls.

*Execution Risk and Investment Manager Errors.* The execution of the trading and investment strategies employed by Castlelake can involve complex transactions, difficult to execute trades and use of negotiated terms with counterparties such as in the use of derivatives. In each case, Castlelake seeks best execution and has trained execution and operations professionals devoted to executing, settling and clearing such trades. However, in light of the complexity and global diversity involved, some slippage, errors and miscommunications with brokers and counterparties are inevitable and may result in losses to Funds. Castlelake will evaluate the merits of potential claims for damage against brokers and counterparties who are at fault, and to the extent practicable may seek to recover losses from those parties. Castlelake may choose to forego pursuing claims against brokers and counterparties on behalf of its Funds for any reason including, but not limited to, the cost of pursuing claims relative to the likely amount of any recovery and the maintenance of its business relationships with brokers and counterparties and overall market. In addition, Castlelake's own investment and operations professionals may be solely or partly responsible for errors in placing, processing, and settling investments. Castlelake is not liable to the Funds for losses caused by brokers or counterparties or by Castlelake's own negligence or contributory negligence. Losses resulting from such errors will be borne by the Funds so long as such persons met the standard of care set forth in the Offering Documents.

### **Item 13 - Review of Accounts**

Investments are reviewed regularly by Castlelake's investment professionals and operations team. In addition, each client portfolio is reviewed regularly by the applicable Castlelake Principals and applicable internal governance structure. Compliance (or Legal) personnel also review all or a portion of a Fund's portfolio to provide oversight and review of the investing activity. An independent auditor annually audits each Fund's financial statements.

Statements are prepared and sent to Account investors on either a monthly basis or quarterly basis respectively. The respective statements include but are not limited to an investor's beginning account balance, contributions, distributions, periodic net income and ending balance. Additionally, investors in Accounts receive monthly or quarterly written updates that highlight the Fund's activity and performance. The managing agents of the Vehicles prepare and deliver monthly, quarterly and annual reports and other statements and reports as required under the indentures governing the Vehicles.

On an annual basis, investors in Funds received audited financial statements. Also, investors in Funds have their income reported to them on Schedule K-1s, Schedule 1042s or a combination of the two.

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

In connection with the offering of interests in some of its Funds, Castlelake may enter into agreements with a number of registered broker-dealers or similar parties in non-US jurisdictions pursuant to which the broker-dealer acted or is acting as a placement agent for the relevant Fund. For this service, the placement agent was or will be paid a fee that will generally be offset against management fees that Castlelake does or will earn for that Fund, subject to the terms of the Offering Documents.

Such placement agents do not act as investment advisers, municipal advisors, or fiduciaries to potential purchasers in connection investments into the Funds. The placement agents may also seek to do business with and earn fees or commissions from affiliates of Castlelake and portfolio activity of the Funds, as well as with other third-party fund sponsors that may have similar or different investment objectives than the Funds. Examples of such business may include, without limitation: provision of financing or investment banking services; lending or arranging credit; provision of prime brokerage; and placement services. Accordingly, placement agents may be influenced by its interest in such current or future fees and commissions, including differentials in the placement fees that are offered by other third-party fund sponsors for which the placement agent acts as placement agent. Certain affiliates or employees of the placement agent might invest in a Fund on their own behalf and/or on behalf of their clients.

#### **Item 15 - Custody**

Castlelake does not serve as the qualified custodian of any of the assets owned by the Accounts. However, Castlelake is deemed by the applicable regulatory rules to have constructive custody of the assets of each Fund due to its affiliation with the general partners or managing members or similar parties or issuers of such entities. Castlelake satisfies the applicable regulatory requirements related to custody by, among other things, ensuring that each Fund is subject to an annual audit by an independent accounting firm that is registered and examined by the Public Company Accounting Oversight Board, and that audited financial statements for each Fund are provided to its investors within 120 days of the applicable Fund's fiscal year-end.

#### **Item 16 - Investment Discretion**

Castlelake exercises broad investment discretion over many of the Funds. This discretion is established in and subject to the terms of the Offering Documents. As a general practice, and except as provided in the Offering Documents, Castlelake does not allow clients to place limitations on this authority. Pursuant to the terms of the Offering Documents, however, and as noted under "Conflicts of Interest – Side Letters" above, Castlelake and/or its affiliates enter into Side Letters with certain investors whereby the terms applicable to such investor's investment in a Fund may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. Investors in the Accounts endorse Castlelake's discretionary authority by executing the subscription documents related to their investment and accepting the terms outlined in the respective Offering Documents.

## **Item 17 - Voting Client Securities**

Subject to the terms and conditions of an underlying investment, Castl lake has the authority to vote proxies relating to certain of the securities held by the Funds. Castl lake's operations team is responsible for reviewing all proxies and voting them consistent with the Castl lake policies and procedures. Castl lake will endeavor to avoid material conflicts of interest in the voting of proxies. However, where material conflicts of interest arise, Castl lake is committed to resolving the conflict in the clients' best interest. In situations where Castl lake perceives a material conflict of interest, Castl lake may defer to the voting recommendation of an independent third-party provider of proxy services or take such other action in good faith that it believes would protect the interest of advisory clients.

Under certain circumstances, Castl lake may elect not to vote proxies for strategic reasons, may not be able to vote proxies or may find that the expected economic costs from voting outweigh the benefits associated with voting. For example, Castl lake may not vote proxies on certain foreign securities due to local restrictions or customs.

A copy of Castl lake's written proxy voting policies and procedures as well as information on how proxies were voted for the Fund in which they have invested is available to any investor upon request.

If "Class Action" documents are received by the Castl lake on behalf of the Funds, Castl lake will ensure that the Funds either participate in, or opt out of, any class action settlements received. Castl lake will determine if it is in the best interest of the Funds to recover monies from a class action. The investment team covering the company in conjunction with compliance will determine the action to be taken when receiving class action notices. In the event Castl lake opts out of a class action settlement, documentation will be maintained of any cost/benefit analysis to support its decision.

## **Item 18 - Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. Castl lake is aware of no financial condition that impairs its ability to meet contractual commitments to the Funds and has never been the subject of a bankruptcy proceeding.