

1543 Capital LP

**200 Greenwich Avenue
Greenwich, Connecticut 06830**

March 2022

This “**Brochure**” provides information about the qualifications and business practices of 1543 Capital LP (hereinafter “**1543**”, “**we**”, “**us**”, “**our**” or the “**Firm**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“**CCO**”), Richard Gannalo, by email at [**gannalo@1543capital.com**](mailto:gannalo@1543capital.com). Information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

1543 is registered as an investment adviser with the SEC. Registration as an investment adviser does not imply that 1543 or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

Additional information about 1543 is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2: Material Changes

This Brochure is 1543's annual update to our last filing in March 2021. Since the last filing, 1543 has launched a new private fund. Clients and prospective clients should carefully read and review the disclosure contained herein.

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Item 4: Advisory Business

1543 Capital LP (hereinafter “**1543**”, “**we**”, “**us**”, “**our**” or the “**Firm**”) is organized as a Delaware limited partnership with a principal place of business Greenwich, Connecticut.

1543 primarily serves as the investment adviser, with discretionary trading authority, to private, pooled investment vehicles, the securities of which are privately offered to “accredited investors,” as defined under the Securities Act of 1933, as amended, and “qualified purchasers,” as defined under the Investment Company Act of 1940, as amended. We do not tailor our advisory services to the individual needs of any particular investor.

1543 currently manages the following private, pooled investment vehicles:

- 1543 Capital Fund I LP, a Delaware limited partnership (“**Fund I**”),
- 1543 Capital Fund (Offshore) I LP, a Cayman Islands exempted limited partnership (the “**Offshore Fund**”) and;
- 1543 ETL Holdings LP, a Delaware limited partnership (the “**Holdings Fund**”).

Fund I, the Offshore Fund and the Holdings Fund are herein each referred to as a “**Fund**” or “**Client**”, and collectively referred to as the “**Funds**” or the “**Clients**”.

The Funds’ “**Limited Partners**” are hereafter collectively referred to as the “**Investors**” where appropriate.

1543 Capital Fund I GP LLC (“**1543 GP**”), an affiliate of 1543, serves as the general partner of Fund I, the Offshore Fund and Holdings Fund.

Our investment decisions and advice with respect to the Funds are subject to each Fund’s investment objectives and guidelines, as set forth in each Fund’s respective “**Offering Documents**.”

As of December 31, 2021, the Firm had regulatory assets under management of \$540,094,678.

Item 5: Fees and Compensation

The fees applicable to each of the Funds are set forth in detail in the corresponding Offering Documents. A brief summary of such fees is provided below.

Management Fee

1543 does not maintain a fixed fee schedule for the Clients. Generally, 1543 is paid an investment management fee (“**Management Fee**”) up to 1.5% per annum based on the cost basis of invested capital, excluding the cost basis of investments that have been disposed of or written off and taking into account write-ups or write-downs. These fees will generally be charged monthly or quarterly in arrears. The amount of the fees charged by each Fund is set forth in each Fund’s respective Offering Documents.

Other Types of Fees or Expenses

1543 is authorized to incur and pay in the name and on behalf of the Funds all expenses incurred by the Funds.

The Firm is responsible for and shall pay, or cause to be paid, all of its own ordinary administrative and overhead expenses, including, without limitation, all costs and expenses related to rent, furniture, fixtures, equipment, office supplies, clerical expenses and all salaries, bonuses and benefits paid to, or on behalf of, personnel of the Firm.

The Funds bear all other expenses, which include, without limitation, the following expenses incurred by or allocable to the Funds: (a) organizational and offering expenses; (b) expenses associated with all investments and transactions considered, evaluated and/or consummated by the Funds, including, without limitation, those expenses incurred before the initial closing of the Funds, including, without limitation, expenses associated with sourcing, negotiating, investigating, researching, financing and structuring of investments and potential investments, whether or not consummated, including, without limitation, third-party research, data, analytics, modeling, structuring, pricing, execution and other third-party information systems, software and service fees (including, without limitation, the expenses with respect to data feeds, subscriptions, expert networks, political intelligence providers, and reports); (c) research-related computer hardware and software expenses, including, without limitation, Bloomberg terminals; (d) the Funds' pro rata share of the Firm's order management system, portfolio management system and any other software used for accounting and/or monitoring of the portfolio; (e) expenses associated with holding, financing, monitoring, hedging, maintaining and disposing of all investments of the Funds and all transaction and other costs associated therewith; (f) travel and related expenses associated with investments and potential investments; (g) professional fees associated with investments and potential investments, including, without limitation, consulting, due diligence, accounting, valuation, financial, legal, and other advisory fees and expenses; (h) transaction fees, brokerage commissions, custodial fees, clearing and settlement charges and similar fees and expenses associated with the acquisition, disposition and settling of investments and potential investments; (i) expenses associated with legal and regulatory filings of the Funds (including, without limitation, pursuant to Section 13 and 16 of the Securities and Exchange Act of 1934, as amended (the "**Exchange Act**")) and the Funds' pro rata portion of the expenses associated with preparation of the Firm's Form 13F, Form 13H and Form PF, and any other similar filing in any other U.S. or non-U.S. jurisdiction; (j) administrative, custodial, appraisal, valuation, legal, regulatory, compliance, consulting, advisory and similar fees and expenses associated with the Funds' operations, investments and transactions, including, without limitation, fees and expenses of the Funds' administrator; (k) expenses incurred in connection with responding to requests or inquiries from any U.S. federal, state, local or non-U.S. governmental entity or authority, regulatory body or self-regulatory organization and all extraordinary expenses; (l) broken-deal, failed transaction, break-up and similar fees, costs and expenses, if any; (m) costs and expenses of leverage or any other borrowings of the Funds, including, without limitation, interest charges and fees; (n) expenses incurred in the collection of monies owed to the Funds, as applicable; (o) auditing and accounting expenses of the Funds, including, without limitation, expenses associated with the preparation of financial statements, tax returns and Schedules K-1 and the fees and expenses of the auditor; (p) any entity level taxes, fees or other governmental charges on the Funds, including, without limitation, any withholding taxes not due to the status or noncompliance of a particular Investor; (q) costs and expenses associated with investor communications and reports and the delivery thereof to investors; (r) the costs of service providers or software to measure or monitor risk metrics, to aggregate positions and/or to provide reporting with respect to risk metrics and/or positions; (s) costs and expenses associated with meetings of the Investors; (t) insurance expenses; including, without limitation, directors' and officers' liability insurance, general partner liability insurance, errors and omissions insurance and other policies, if any;

(u) costs and expenses (including, without limitation, entity-level taxes, fees or other governmental charges) associated with the formation, organization and operation of any subsidiary, special purpose vehicle, alternative investment vehicle, holding company, or similar entity formed with respect to investments, credit facilities or other transactions entered into for the benefit of the Funds; (v) wind-up, liquidation, termination and dissolution expenses; (w) costs, fees and expenses related to registration, qualification and/or exemption under any applicable U.S. federal, state, local or non-U.S. laws, rules or regulations, including, without limitation, blue sky fees, Form D, Form 8.3, CFTC filings and notices and other securities and/or investment-related filing expenses; (x) costs related to any transfers of interests in the Funds, unless otherwise charged to or borne by the applicable transferor and/or transferee; (y) expenses incurred in connection with the preparation of any amendment to the Funds' governing documents and/or Offering Documents; (z) expenses incurred in connection with pursuing, defending or participating in any litigation, arbitration, mediation or similar proceeding by the Funds; (aa) any extraordinary expenses (including, without limitation, all litigation-related and indemnification and contribution expenses, including, without limitation, the amount of any judgment or settlement paid in connection therewith); (bb) the Management Fee; and (cc) all other fees, costs, charges and expenses associated with the business, affairs and/or operations of the Funds.

In general, each Investor will indirectly bear its proportionate share of their respective Fund's expenses on a pro rata basis with respect to the size of such Investor's capital account(s) or with respect to the relative net asset value of the shares held by such Investor, as applicable.

Some of the costs and expenses detailed above will be allocable across Funds or Clients. 1543 will allocate these costs generally on a pro rata basis, unless such an allocation method would in the view of 1543 be unfair to one or more of its clients in which case 1543 will allocate using an alternative method that would produce a fair results.

To the extent that expenses to be borne by the Funds are paid by the Firm, the Funds will reimburse the Firm for such expenses. We may waive any such reimbursement with respect to any Fund expenses. Any waiver by us for reimbursement of any Fund expenses shall not serve as a waiver of reimbursement for any future Fund expenses to be paid by us.

Neither the Firm nor its employees accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

Item 6: Performance-Based Fees and Side-By-Side Management

We and our affiliates are entitled to a performance-based compensation. As a result, we and our affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients.

Performance-based allocation arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which we would recommend under a different arrangement. 1543 Capital addresses this possible conflict through its trade allocation policy, in which investment opportunities are allocated among clients according to each client's investment objectives and in a fair and equitable manner.

Item 7: Types of Clients

Our clients are pooled investment vehicles, including the Funds described in Item 4 above. These Funds are generally open to, among others, institutions, pension plans, endowments, high net-worth individuals, financially sophisticated individuals, and other sophisticated investors. In addition to the two Funds listed in Item 4, 1543 provides non-discretionary investment advice and other services to certain other accounts.

Generally, the minimum initial investment in the Funds is \$10 million. However, the Fund General Partner and/ or 1543, as applicable, may, in its sole discretion, accept smaller initial investments from time to time.

Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss

Investment Objective

1543 focuses its investment strategy on opportunities in structure finance, private credit, and corporate loans.

1543, on behalf of the Funds it manages, seeks to realize significant current income and long-term capital appreciation primarily through proprietarily sourced investments employing a broad and opportunistic approach to asset-backed markets. The Fund's investments primarily focus on (i) private credit including consumer, commercial, and other asset-based investing, (ii) opportunistic investments in structured finance markets, (iii) equity and fixed income investments in related specialty finance companies and (iv) equity in commercial real estate. The Fund expects to invest in and outside the United States, across many sub-asset classes with drivers including both consumer and commercial credit, in addition to many others.

Risk Management

An investment in the Funds we manage is speculative and entails substantial financial risks.. We focus on managing risk through the quality of our investment process and monitoring of investments. We as a Firm do not bring on what we believe to be unnecessary risk without seeking to conduct a complete analysis and assessment of each potential investment

Risk of Loss Factors

The investment strategies we pursue are speculative and entail substantial risks. Investors should be prepared to bear a substantial loss of capital. Each prospective investor should carefully review the Offering Documents before deciding to invest with 1543.

Investment Risks in General. All investments risk the loss of capital. No guarantee or representation is made by the General Partner or the Investment Manager that the Fund's investment in the Portfolio Investments will be successful.

Risks Associated with the Fund's Investment Strategies. The success of the Fund's investment activities depends on the General Partner's and the Investment Manager's ability to identify opportunities for positive risk-adjusted returns, which is dependent in part on a continuing lack of available capital in the market for they types of opportunities that the General Partner and Investment Manager target for investment. Identification of these opportunities involves uncertainty. No assurance can be given that the General Partner and/or Investment Manager will be able to successfully locate investment opportunities.

The Fund may be adversely affected by unforeseen events involving such matters as political crises, changes in currency exchange rates or interest rates, legal or market changes with respect to consumer credit and/or debt forgiveness policies, forced redemptions of securities or acquisition proposals. The General Partner believes that the Fund's investment program and risk management techniques moderate these risks. However, no assurance can be made that the Fund's investment program and risk techniques will be effective or that the Fund will not incur substantial losses. No guarantee or representation is made that the Fund's investment program will be successful.

Competition and Availability of Suitable Investments. A number of entities compete with the Fund to make the types of investments that the Fund plans to make. The Fund competes with public and private funds, commercial and investment banks, REITs, specialty finance companies, business development companies and, to the extent they provide an alternative form of financing, private equity funds. Additionally, as competition for investment opportunities increases, alternative investment vehicles, such as hedge funds, may frequently invest in similar opportunities. As a result of these new entrants, competition for investment in similar opportunities have intensified, and the Fund expects the trend to continue.

Many of the Fund's potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than the Fund does. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to the Fund. In addition, some of the Fund's competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than the Fund. The Fund cannot assure Limited Partners that the competitive pressures faced by the Fund will not have a material adverse effect on the Fund's business, financial condition and results of operations. Furthermore, as a result of this competition, the Fund may not be able to take advantage of attractive investment opportunities from time to time, and the Fund can offer no assurance that it will be able to identify and make investments that are consistent with its investment objective.

Interest Rates. Interest rate fluctuations may have a substantial negative impact on the Fund. A reduction in the interest rates on new investments relative to interest rates on current investments could also have an adverse impact on the Fund's net investment income. An increase in interest rates could decrease the value of any investments the Fund holds directly or indirectly with interest rate floors above prevailing rates that earn a fixed rate of interest, that are valued based on discounted cashflows or otherwise and also could increase the Fund's interest expense, thereby decreasing its net income.

Inflation Risk. Inflation risk results from the variation in the value of cash flows from an investment due to inflation, as measured in terms of purchasing power. For example, if the Fund originates a loan in which it can realize a coupon rate of five percent (5%), but the rate of inflation increases from two percent (2%) to six percent (6%), then the purchasing power of the cash flow has declined. While the Investment Manager expects many of the Fund's loans to be adjustable or floating rate loans, the Fund may be exposed to inflation risk because the interest rate the issuer promises to pay on some loans is fixed for the life of the investment. To the extent that interest rates reflect the expected inflation rate, adjustable or floating rate loans have a lower level of inflation risk. Inflation may also increase costs more rapidly than revenues or affect how financial assets are valued.

Loans Risk. The Fund's assets will partially consist of whole loans or interests in whole loans, which are subject to liquidity, market value, credit, interest rate, reinvestment and other risks.

There can be no assurance that the Investment Manager will correctly evaluate the nature and magnitude of the various factors that could negatively affect the value or performance of such assets. These risks could be exacerbated to the extent that the portfolio is concentrated in one or more particular types of assets.

The value of the Fund assets is volatile and may fluctuate due to a variety of factors that are inherently difficult to predict and are outside the control of the Fund and the Investment Manager, including changes in terms, prevailing credit spreads, general economic conditions, financial market conditions, domestic or international economic or political events, developments or trends in any particular sector, or the financial condition of the obligors of the Fund's assets. In particular, the market for whole loans has experienced periods of volatility in the supply and demand for such loans, resulting in volatility in, among other things, spreads, interest rate floors, purchase price discounts, leverage, covenants, structure, and other terms. Additionally, such loans and interests in such loans generally have significant liquidity and market value risks since they are not generally traded in organized markets, but are traded (if at all) by banks and other institutional investors in privately negotiated transactions. Because loans are privately syndicated and loan agreements are privately negotiated and customized, loans are not purchased or sold as easily as publicly traded securities. In addition, historically the trading volume in the loan market has been small relative to the high-yield debt securities market.

There can be no assurance as to the levels of defaults or the amount or timing of recoveries that may be experienced with respect to the Fund's assets. Any increase in default levels or decrease in recovery rates, or delays in receipt of recoveries, could adversely affect distributions, if any, to the Limited Partner.

Developments in Leveraged Loan and Credit Markets. In recent years, the global economy has been negatively affected by significant disruptions in the credit markets, including the collateralized debt obligation and leveraged finance markets, and a general economic downturn and, in certain countries, recession. Significant risks for the Fund and the Limited Partner continue to exist as a result of credit market volatility and uncertain economic conditions. These risks include, among others, (a) the likelihood that the Fund may find it more difficult to sell any of its assets in the secondary market, thus rendering it more difficult to dispose of such assets if and when it desires to sell them, (b) the possibility that the price at which assets can be sold by the Fund will have deteriorated from the cost of such investment to the Fund, (c) the possibility of accelerated prepayments of attractively priced (i.e., the all-in yield), structured or performing Fund assets as a result of increased liquidity and competition in the private debt asset class driven by economic conditions, relative performance, monetary policy or other governmental action or other factors, and (d) the impact of adverse economic conditions on the obligors of the Fund's assets. These risks may affect the returns, if any, to the Limited Partner or the ability of the Fund to return any or all of the Limited Partner's advances.

Hedging Transactions. If the Fund and/or its investments or other entities which the Fund or its investments have economic exposure to engage in hedging transactions, the Fund may expose itself to risks associated with such transactions. The Fund and/or its borrowers may use instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of the Portfolio Investments from changes in market interest rates. Hedging against a decline in the values of Portfolio Investments caused by these risks does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline for other

reasons. Such hedging transactions may also limit the opportunity for gain if the values of the Portfolio Investments should increase. Moreover, it may not be possible to hedge against an interest rate fluctuation that is so generally anticipated by the markets that a hedging transaction at an acceptable price is unavailable. To the extent that the degree of correlation between such hedging instrument and the Portfolio Investment being hedged is not perfect, the Fund may be exposed to losses.

Derivatives Risk. The Fund and/or its borrowers may enter into certain derivative financial instruments with certain rated counterparties. The risks posed by such instruments and techniques, which can be extremely complex, include: (1) credit risks (the exposure to the possibility of loss resulting from the failure by any such counterparty to meet its financial obligations); (2) market risk (the exposure to potential losses arising from adverse movements in the price of a financial asset); (3) legal risks (the exposure to potential losses arising from the characterization of a transaction or a party's legal capacity to enter into it could render the financial contract unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); (4) operational risks (the exposure to losses arising from inadequate controls, deficient procedures, human error, system failure or fraud); (5) documentation risks (exposure to losses resulting from inadequate documentation); (6) liquidity risk (exposure to losses created by inability to prematurely terminate the derivative); (7) systemic risks (the exposure to potential losses arising from the risk that financial difficulties in one institution or a major market disruption will cause financial harm to the financial system); (8) concentration risks (the exposure to potential risk of losses arising from the lack of diversification in any concentrated exposure to a particular sector or exposure linked to a particular entity); (9) settlement risk (the exposure to the risk of potential losses arising from unexecuted obligations of any such counterparty where the Fund has performed its obligations under such a contract but has not yet received value from its counterparty); and (10) set-off risks (the exposure to losses arising from the risk that any such counterparty may potentially set-off obligations owed to it by the Fund (or its affiliates under unrelated contract)).

Counterparty Risk. The Fund may depend on the services of prime brokers, custodians, counterparties, administrators and other agents to carry out certain transactions on behalf of the Fund. The terms of these contracts are often customized and complex, and many of these arrangements occur in markets or relate to products that are not subject to regulatory oversight.

The Fund is subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, on its performance under the contract. Any such default may occur suddenly and without notice to the Investment Manager. Moreover, if a counterparty defaults, the Investment Manager may be unable to take action to cover the Fund's exposure, either because it lacks contractual recourse or because market conditions make it difficult to take effective action. This inability could occur in times of market stress, which is when defaults are most likely to occur.

In the event of the insolvency of a prime broker, custodian, counterparty or any other party that is holding assets of the Fund as collateral, the Fund might not be able to recover equivalent assets in full as they will rank among the prime broker's, custodian's or counterparty's unsecured creditors in relation to the assets held as collateral. In addition, the Fund's cash held with a prime broker, custodian or counterparty generally will not be segregated from the prime broker's, custodian's or counterparty's own cash, and the Fund may therefore rank as an unsecured creditor in relation thereto.

The counterparty risks that the Fund faces have increased in complexity and magnitude as a result of disruption in the financial markets in recent years. For example, the consolidation and elimination of counterparties has increased the concentration of counterparty risk and decreased the universe of potential counterparties, and the Fund is generally not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. In addition, counterparties have generally reacted to recent market volatility by tightening their underwriting standards and increasing their margin requirements for all categories of financing, which has the result of decreasing the overall amount of leverage available and increasing the costs of borrowing.

Diversification. The General Partner and/or Investment Manager generally expect to maintain a portfolio of illiquid investments for the Fund. Additionally, the nature of the borrowers and the risks related to the underlying investments may not be diversified. Although the Investment Manager and the Fund will be required to comply with the investment limitations set forth under Section V: “Summary of Principal Terms—Investment Limitations,” there is no assurance that such limitations and compliance therewith will prevent the Fund from incurring losses. Even with adherence to the investment limitations, the General Partner and/or Investment Manager may invest a material portion of the aggregate commitments to the Fund (and a greater amount with the consent of the Advisory Board) in any borrower. An unfavorable performance by one or more of the Fund’s relatively large investments could have a substantial adverse impact on the aggregate returns of the Fund. Additionally, while the Fund is not targeting any specific sectors, its investments may be concentrated in relatively few sectors. As a result, a downturn in any particular sector in which the Fund is invested could also significantly negatively impact the aggregate returns it realizes.

Prepayment Risk. The loans to borrowers may be pre-payable at any time by the borrower, some of them at no premium to par. Prepayment on loans may be caused by a variety of factors which are difficult to predict. Whether a loan is prepaid will depend both on the continued positive performance of the borrower and the existence of favorable financing market conditions that allow such borrower the ability to replace existing financing with less expensive capital. As market conditions change frequently, it is unknown when, and if, this may be possible for any given borrower. In the case of some of these loans, having the loan prepaid may reduce the achievable yield for the Fund if the capital returned cannot be invested in transactions with equal or greater expected yields, which could have a material adverse effect on the Fund’s business, financial condition and results of operations.

Contingent Liabilities. The Fund currently expects that a significant portion of its investments will involve privately structured securities and loans. In connection with the disposition of an investment in private investments, the Fund may be required to make representations about the borrowers typical of those made in connection with such sale. The Fund may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through the Fund’s return of certain previously made distributions.

Liquidity of Investments. The Fund will generally make investments in whole loans. Substantially all of these investments will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. The Fund’s assets will generally have no, or only a limited, trading market. The illiquidity of the Fund’s investments may make it difficult for the Fund to sell such investments if the need arises. In addition, if the Fund is

required to liquidate all or a portion of a Portfolio Investment quickly, the Fund may realize significantly less than the value at which it previously recorded the Portfolio Investment. The Fund may face other restrictions on its ability to liquidate a Portfolio Investment to the extent that the Fund has material non-public information regarding such Portfolio Investment. The prices realized from the sale of any of the Fund's assets could be less than the cost of such assets to the Fund or less than what may be considered the fair value of such assets.

Stated Maturity of Debt Instruments. The Investment Manager expects to actively invest in Portfolio Investments through the end of the Investment Period and, as such, the stated maturity of debt instruments may exceed the term of the Fund. Equity investments generally will not have stated maturity. The Investment Manager generally seeks to make debt investments where it expects that the principal amount of such instrument will be paid prior to the stated maturity of such instrument, provided, however, that there is no guaranty that borrowers will repay such obligations prior to the stated maturity date, or that the instrument will not be amended to extend the stated maturity date or otherwise modify the terms. Thus, the Fund may not recoup proceeds from such Portfolio Investments until after the term of the Fund has expired (subject to permitted extensions of the term) and is in liquidation. Further, there is no guaranty that the Fund will be able to liquidate equity Portfolio Investments prior to expiration of the term of the Fund.

Third-Party Involvement. The Fund may co-invest with Limited Partners or third parties. Investments with third parties involve risks not present in investments where a third party is not involved, including the possibility that such third party may at any time have economic or business interests or goals which are inconsistent with those of the Fund, or may be in a position to take action contrary to the investment objective of the Fund. In addition, the Fund may in certain circumstances be liable for actions of such third party. Additionally, the Fund may incur costs related to investments involving co-investors and third parties that might not be easily allocated to or recouped from such parties, and the Fund therefore may experience a disproportionate share of such costs.

Global Investments. The Fund may make investments in non-U.S. opportunities. Investing in non-U.S. opportunities may expose the Fund to additional risks not typically associated with investing in U.S. opportunities. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of non-U.S. taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. The perfection of a security interest on collateral located outside of the United States will be governed by the laws of the jurisdiction in which the collateral is located, and the ability to create a perfected security interest in such a jurisdiction may be less certain or more difficult or cumbersome to achieve. As a result, loans that were intended to be secured may turn out to be partially or wholly unsecured, or obstacles may exist to the enforcement or realization of the security interest.

In addition, any investments that the Fund makes that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, political developments and a variety of other matters that are wholly outside the control of the Fund and the General Partner. The Fund may employ hedging techniques to minimize

these risks, but the Fund can offer no assurance that it will, in fact, hedge currency risk, or, that if it does, such strategies will be effective.

The Fund may be subject to additional risks which include possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage, usury laws or otherwise. In addition, political or social instability or diplomatic developments could affect investments in those countries. Investments outside of the U.S. may also result in the Fund being subject to local securities laws, regulations, tax obligations and subject to potential lawsuits or other actions in the home jurisdiction of the borrower. While the General Partner and/or Investment Manager will take these factors into consideration in making investment decisions for the Fund, no assurance can be given that the Fund will be able to avoid these risks.

Lower Credit Quality Loans. There are no restrictions on the credit quality of the Fund's loan investments and no ratings or other standardized metrics exist for the evaluation of relative risk in such loans. Loans arranged by the Fund may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans which the Fund may fund 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 also tend to be more sensitive to changes in economic conditions than better quality loans.

Default Risk. A borrower's failure to satisfy financial or operating covenants imposed by the Fund or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its assets. This could trigger cross-defaults under other agreements and jeopardize such borrower's ability to meet its obligations under the securities that the Fund holds. The Fund may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting borrower.

Participations. The Fund may acquire interests in bank loans either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a contracting party under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest and not with the borrower. In purchasing participations, the Fund may have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, and the Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Fund may assume the credit risk of both the borrower and the institution selling the participation to the Fund.

Risks of Acquiring Real Estate Loans and Participations. For certain types of loans underlying securities the Fund may acquire, the loan rate or borrower payment rate may increase over time, increasing the potential for default. For example, securities may be backed by residential real estate loans that have negative amortization features. The rate at which interest accrues on these loans may change more frequently or to a greater extent than payment adjustments on an adjustable-rate loan, and adjustments of monthly payments may be subject to

limitations or may be limited by the borrower's option to pay less than the full accrual rate. As a result, the amount of interest accruing on the remaining principal balance of the loans at the applicable adjustable mortgage loan rate may exceed the amount of the monthly payment. To the extent the Fund is exposed to it, this is particularly a risk in a rising interest rate environment. Negative amortization occurs when the resulting excess (of interest owed over interest paid) is added to the unpaid principal balance of the related adjustable mortgage loan. For certain loans that have a negative amortization feature, the required monthly payment is increased after a specified number of months or after a maximum amount of negative amortization has occurred in order to amortize fully the loan by the end of its original term. Other negative amortizing loans limit the amount by which the monthly payment can be increased, which results in a larger final payment at maturity. As a result, negatively amortizing loans have performance characteristics similar to those of balloon loans. Negative amortization may result in increases in delinquencies, loan loss severity, and loan defaults, which may, in turn, result in payment delays and credit losses on our investments. Other types of loans and investments to which the Fund may be exposed, such as hybrid loans and adjustable-rate loans, may also have greater credit risk than more traditional amortizing fixed-rate mortgage loans.

Risks Associated with Foreclosure on Real Estate Loans. It is possible that the General Partner may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the Fund. The foreclosure process varies jurisdiction by jurisdiction and can be lengthy and expensive. A foreclosure action may be subject to delays and additional expenses if defenses or counterclaims are interposed, and may require several years to complete. Moreover, a non-collusive, regularly conducted foreclosure sale may be subject to various challenges under bankruptcy and other applicable law, further delaying the foreclosure process. Similarly, a suit against a borrower on a note may take several years and, generally, is a remedy alternative to foreclosure, so that the Fund may be precluded from pursuing both foreclosure and an action on a note simultaneously. Furthermore, foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property. In the event of a foreclosure, the Fund may assume direct ownership of the underlying asset. The liquidation proceeds received upon the sale of any 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.

Payment/Lien Subordination. The Fund may invest a portion of its capital in first lien and unitranche loans and second lien, junior debt and equity securities of U.S. borrowers. The applicable borrowers usually have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt securities in which the Fund invests. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which the Fund is entitled to receive payments in respect of the debt securities in which the Fund invests. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a borrower, holders of debt instruments ranking senior to the Fund's investment in that borrower would typically be entitled to receive payment in full before the Fund receives any distribution in respect of its investment. After repaying senior creditors, the borrower may not have sufficient assets to repay its obligation to the Fund in full, or at all. In the case of debt ranking equally with debt securities in which the Fund invests, the Fund would have to share any distributions on an equal and ratable basis with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant borrower.

Credit Risk and Nature of Investment in Secured Loans. The investments of the Fund will include secured debt, which involves various degrees of risk of a loss of capital. While loans originated by the Fund are intended to be over-collateralized, the Fund may be exposed to losses resulting from default, foreclosure and bankruptcy. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. 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.

When the Fund extends senior, subordinated or semi-subordinated loans, it will attempt to negotiate a security interest in the available assets of the borrowers, including the equity interests of their subsidiaries. The Fund expects the security interest to help mitigate the risk that it will not be repaid. However, there is a risk that the collateral securing the Fund's loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the borrower's business and market conditions, including as a result of the inability of the borrower to raise additional capital.

Mezzanine Loans. The Fund's mezzanine investments, like other forms of subordinated or semi-subordinated loans made by the Fund, will generally be subordinated to senior loans and will generally be unsecured. This may result in an above average amount of risk and volatility or a loss of principal. These investments may involve additional risks that could adversely affect the Fund's investment returns. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject the Fund and the Limited Partners to non-cash income. Because the Fund will not receive any substantial repayments of principal prior to the maturity of its mezzanine debt investments, such investments are riskier than amortizing loans.

Unsecured Loans. The Fund may make unsecured loans to borrowers, meaning that such loans will not benefit from any interest in the assets of such borrowers and as such generally have greater credit, insolvency and liquidity risk than is typically associated with secured obligations. Liens on such borrowers' assets, if any, will secure the applicable borrower's obligations under its outstanding secured debt and may secure certain future debt that is permitted to be incurred by the borrower under its secured loan agreements. The holders of obligations secured by such liens will generally control the liquidation of, and be entitled to receive proceeds from, any realization of such collateral to repay their obligations in full before the Fund. In addition, the value of such collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from sales of such collateral would be sufficient to satisfy the Fund's unsecured obligations after payment in full of all secured loan obligations. If such proceeds were not sufficient to repay the outstanding secured loan obligations, then the Fund's unsecured claims would rank equally with the unpaid portion of such secured creditors' claims against the borrower's remaining assets, if any.

Bankruptcy and Insolvency of Borrowers. Borrowers may experience bankruptcy or insolvency. In the event of a Chapter 11 filing by a borrower, the Bankruptcy Code of 1978, as amended (the "Bankruptcy Code"), authorizes the borrower to use a creditor's collateral and to obtain additional credit by grant of a priority lien on its assets, senior even to liens that were first in

priority prior to the filing, as long as the borrower 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 priority 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 the affected loans.

The bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversary proceedings and are beyond the control of the creditors, including the Fund. A bankruptcy filing by a borrower may adversely and permanently affect the borrower. If the proceeding is converted to a liquidation, the value of the borrower may not equal the liquidation value that was believed to exist at the time of the Fund’s investment. The duration of a bankruptcy proceeding is also difficult to predict, and a creditor’s return on investment can be adversely affected by delays until a plan of reorganization or liquidation ultimately becomes effective. The administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the borrower’s estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, the Fund’s influence with respect to the class of securities or other obligations it owns may be lost by increases in the number and amount of claims in the same class or by different classification and treatment.

Equitable Subordination. Loans to borrowers operating in workout modes or under Chapter 11 of the Bankruptcy Code are, in certain circumstances, subject to certain potential liabilities that may exceed the amount of the Fund’s loan. Depending on the facts and circumstances of the Fund’s investments and the extent of its involvement in the management of a particular borrower, upon the bankruptcy of that borrower, a bankruptcy court may (i) recharacterize the Fund’s debt investments as equity interests and subordinate all or a portion of the Fund’s claim to that of other creditors, (ii) disallow the Fund’s claims against the borrower or (iii) find the Fund liable for damages suffered by third parties as a result of the Fund’s activities. This could occur even though the Fund may have structured its investment as senior debt.

Accounts Receivables Relating to Financial Assets. The Fund may finance portfolios of accounts receivables relating to financial assets, such as consumer loans, automobile loans, student loans, commercial loans and a variety of similar assets. The performance of such assets will be affected by general economic conditions and conditions impacting the individual underlying borrowers. Recent changes in economic conditions have adversely affected the performance and market value of such assets and the volatility related to asset values of such loans may continue or become even greater if economic conditions impacting consumers becomes worse. The ability to collect on consumer obligation accounts receivables is dependent on the performance of a servicer. The servicer may be able to commingle funds relating to a transaction (such as collections from the loans and proceeds from the disposition of any repossessed collateral, such as repossessed vehicles) with its own funds for a period of time. Commingled funds may be used or invested by the servicer at its own risk and for its own benefit. If the servicer were unable to remit those funds or the servicer were to become a debtor under any insolvency laws, delays or reductions in the receivables may occur.

Nature of Investment in Consumer Loans. 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 Fund faces 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 Fund for the principal and interest outstanding on these loans. In addition, because loan applications may be completed by third parties, such as automobile dealerships, the Fund assumes the risks associated with each third party properly complying with federal, state, and local consumer protection laws. It may become necessary to increase the Fund's provision for loan losses in the event that the Fund's losses on consumer loans increase, which would reduce the Fund's profits.

Consumer loans are subject to various consumer protection laws which regulate the creation and enforcement of such loans. The violation of such laws by lenders, servicers and their affiliates may permit borrowers to reduce their obligation to pay the amount of receivables they owe or require lenders to pay certain penalties. Similarly, 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. Certain student loans may be guaranteed by the U.S. federal government; a guarantee agency may reject a loan for claim payment due to a violation of the Federal Family Education Loan Program due diligence collection and servicing requirements. Certain laws such as the Service Members Civil Relief Act of 2004 and, in respect of student loans, the Higher Education Relief Opportunity for Students Act of 2003, restrict the ability of lenders and servicers to collect on outstanding obligations of borrowers on active military duty or subject to national emergencies. The College Cost Reduction and Access Act, which went in effect on July 1, 2008, may negatively impact the returns in respect of student loans.

Equity Investments. The Fund expects to make (and has made in the case of the Amsterdam Transaction) equity investments in specialty finance businesses, commercial real estate or otherwise. The Fund's goal is ultimately to dispose of these equity interests and realize gains upon its disposition of such interests. However, the equity interests the Fund receives may not appreciate in value and, in fact, may decline in value. Accordingly, the Fund may not be able to realize gains from its equity interests, and any gains that it does realize on the disposition of any equity or similar interests may not be sufficient to offset any other losses the Fund experiences. Additionally, equity investments generally will not have a stated maturity and there is no guaranty that the Fund will be able to liquidate equity investments prior to the expiration of the term of the Fund.

Reliance on Management of Borrowers and Servicers. The day-to-day operations of each borrower in which the Fund invests and related servicers will be the responsibility of such borrower's or such servicer's, as applicable, management team and, therefore, the Fund is subject to the risk that such borrowers and/or servicers, as applicable, may make business decisions with which the Investment Manager disagrees, and the stockholders or management of such borrowers and/or servicers, as applicable, may take risks or otherwise act in ways that do not serve the Fund's interests. As a result, borrowers and/or servicers, as applicable, may make decisions that could decrease the value of the Fund's investments and, in turn, have a material adverse effect on the value of the Limited Partner's Interest in the Fund.

Bridge Financings. From time to time, the Fund may lend to entities or other interests on a short-term, subordinated basis or otherwise invest on an interim basis in entities or other interests in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge loans would typically be convertible into a more permanent, long-term financing; however, for reasons not always in the Fund's control, such long-term financing or other refinancing or syndication may not occur and such bridge loans and interim investments may remain outstanding. In such event, the interest rate on such

loans or the term of such interim investments may not adequately reflect the risk associated with the position taken by the Fund.

Syndicated Loan Risk. As a holder of a syndicated loan or an interest therein, the Fund may have limited consent and control rights and such rights may not be effective in view of the expected proportion of such loan held by the Fund. The Investment Manager may exercise or enforce, or refrain from exercising or enforcing, any or all of the Fund's rights in connection with any of its underlying investments. However, due to the size of the Fund's investment position, the Fund may have limited influence over any amendment, waiver or modification of such loan.

Structured Finance Securities. A portion of the Fund's investments may consist of equipment trust certificates, collateralized mortgage obligations, collateralized bond obligations, collateralized loan obligations, collateralized debt obligations ("CDOs") or other asset-backed securities ("ABS") or similar instruments. Structured finance securities may present risks similar to those of the other types of debt obligations in which the Fund may invest and, in fact, such risks may be of greater significance in the case of structured finance securities. Moreover, investing in structured finance securities may entail a variety of unique risks. Among other risks, structured finance securities may be subject to prepayment risk. In addition, the performance of a structured finance security will be affected by a variety of factors, including its priority in the capital structure of the issuer thereof, and the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.

Collateralized Debt Obligations. The Fund may invest in CDOs and collateralized loan obligations ("CLOs"). The portfolio may consist of CLO equity, multi-sector CDO equity, trust preferred CDO equity and CLO mezzanine debt. CDOs are subject to credit, liquidity and interest rate risks. The CDO equity purchased by the Fund will most likely be risky, which means that a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative. In addition, as a holder of CDO equity, the Fund will have limited remedies available upon the default of the CDO.

The value of the CDOs owned by the Fund generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular sector and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished.

CLO Risk. CLOs often involve risks that are different from or more acute than risks associated with other types of debt instruments. For instance, due to their often complicated structures, various CLOs may be difficult to value and may constitute illiquid investments. In addition, there can be no assurance that a liquid market will exist in any CLO when the Fund seeks to sell its interest therein. Moreover, the value of CLOs may decrease if the ratings agencies

reviewing such securities revise their ratings criteria and, as a result, lower their original rating of a CLO in which the Fund has invested. Further, the complex structure of the security may not be fully understood at the time of investment and may produce unexpected investment results. Additionally, ongoing regulatory change in both the United States and Europe has complicated the rules related to ownership of the equity of CLO issuers and in other aspects of CLO investing that the Fund may engage. Furthermore, it is possible that the Fund's investment in a CLO will be subject to certain contractual limitations on transfer.

CLO Subordinated Notes Risk. The Fund may invest in subordinated notes issued by a CLO, which are junior in priority of payment and are subject to certain payment restrictions generally set forth in an indenture governing the notes. In addition, they generally have only limited voting rights and generally do not benefit from any creditors' rights or ability to exercise remedies under the indenture governing the notes. The subordinated notes are not guaranteed by another party. The Fund cannot assure the Limited Partners that distributions on the assets held by the Fund will be sufficient to make any distributions or that the yield on the subordinated notes will meet the Fund's expectations. The subordinated notes are equivalent to equity.

The subordinated notes are unsecured and rank behind all of the secured creditors, known or unknown, of the issuer, including the holders of the secured notes it has issued. Consequently, to the extent that the value of the issuer's portfolio of loan investments has been reduced as a result of conditions in the credit markets, defaulted loans, capital gains and losses on the underlying assets, prepayment or changes in interest rates, the value of the subordinated notes realized at their redemption could be reduced. Accordingly, the subordinated notes may not be paid in full and may be subject to up to 100% loss.

Restructurings of Investments Held by CLOs. The manager of a CLO has broad authority to direct and supervise the investment and reinvestment of the investments held by the CLO, which may include the execution of amendments, waivers, modifications and other changes to the investment documentation in accordance with the collateral management agreement. During periods of economic uncertainty and recession, the incidence of amendments, waivers, modifications and restructurings of investments may increase. Such amendments, waivers, modifications and other restructurings will change the terms of the investments and in some cases may result in the CLO holding assets not meeting its criteria for investments. This could adversely impact the coverage tests under an indenture governing the notes issued by the CLO. Any amendment, waiver, modification or other restructuring that reduces the CLO's compliance with certain financial tests will make it more likely that the CLO will need to utilize cash to pay down the unpaid principal amount of secured notes to cure any breach in such test instead of making payments on subordinated notes. Any such use of cash would reduce distributions available and delay the timing of payments to the Fund.

Receipt of Cash from CLOs. The Fund receives cash from CLOs only to the extent that the Fund receives payments on subordinated notes. CLOs generally may make payments on subordinated notes only to the extent permitted by the payment priority provisions of an indenture governing the notes issued by the CLO. CLO indentures generally provide that principal payments on subordinated notes may not be made on any payment date unless all amounts owing under secured notes are paid in full. In addition, if a CLO does not meet the asset coverage tests or the interest coverage test set forth in the indenture governing the notes issued by the CLO, cash would be diverted from the subordinated notes to first pay the secured notes in amounts sufficient to cause such tests to be satisfied.

Real Estate Collateralized Loan Obligation (CLO) Risks. The Fund's investments in commercial mortgage backed securities, CLOs and other similar structured finance investments, as well as those we structure, sponsor or arrange, pose additional risks, including the risks of the securitization process and the risk that our servicers may take actions that could adversely affect our interests. The Fund may, from time to time, invest in, commercial mortgage-backed securities, including in the most subordinated classes of such commercial mortgage-backed securities, CLOs and other similar securities, which may be subordinated classes of securities in a structure of securities secured by a pool of mortgages or loans. Accordingly, such securities may be the first or among the first to bear the loss upon a restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal, with only a nominal amount of equity or other debt securities junior to such positions. The estimated fair values of such subordinated interests tend to be much more sensitive to adverse economic downturns and underlying borrower developments than more senior securities. A projection of an economic downturn, for example, could cause a decline in the price of lower credit quality commercial mortgage-backed securities or CLOs because the ability of borrowers to make principal and interest payments on the mortgages or loans underlying such securities may be impaired.

ABS and MBS. The investment characteristics of ABS and mortgage-backed securities ("MBS") differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying MBS and ABS will be affected by a variety of factors including the prevailing level of interest rates as well as the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the mortgage loans, possible changes in tax laws, other opportunities for investment, homeowner mobility and other economic, social, geographic, demographic and legal factors. In general, any factors that increase the attractiveness of selling a mortgaged property or refinancing a mortgage loan, enhance a borrower's ability to sell or refinance or increase the likelihood of default under a mortgage loan, would be expected to cause the rate of prepayment in respect of a pool of mortgage loans to accelerate. Particular investments may experience outright losses, as in the case of an interest only security in an environment of faster actual or anticipated prepayments. Also, particular investments may underperform relative to hedges that a portfolio manager may have constructed for these investments, resulting in a loss.

Specific Risks Relating to Commercial Mortgage-Backed Securities ("CMBS"). The securities in which the Fund may invest are expected to consist of CMBS that are secured by mortgages on commercial property ("Commercial Mortgage Loans") having a multi-family or commercial use, such as shopping malls, other retail space, office buildings, industrial or warehouse properties, hotels, self-storage, parking lots, nursing homes and senior living centers. In addition to the risks described above, the Commercial Mortgage Loans underlying CMBS are subject to particular risks, including lack of standardized terms, shorter maturities than residential mortgage loans and payment of all or substantially all of the principal only at maturity rather than through regular amortization of principal. Additional risks may be presented by the type and use of a particular commercial property. Special risks are presented by hospitals, nursing homes, hospitality properties and certain other property types. Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on such a loan. Commercial property values and net operating incomes are subject to volatility, which

may result in the net operating income becoming insufficient to cover debt service on the related mortgage loan. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate. Furthermore, the net operating income from and value of any commercial property is subject to various risks, including changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; changes in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; weather and other acts of God; terrorist threats and attacks; and social unrest and civil disturbances. A commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original intended purpose becomes unprofitable. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. The liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related Commercial Mortgage Loan, than would be the case if such commercial property were readily adaptable to other uses. The exercise of remedies and successful realization of liquidation proceeds relating to Commercial Mortgage Loans underlying CMBS may be highly dependent on the performance of the servicer or special servicer. There may be a limited number of special servicers available.

Risks Inherent in Investing in Subordinate CMBS. The Fund may invest in risky CMBS. Typically, these risky securities support and are subordinate to the higher rated senior securities in the CMBS transaction.

The Fund will attempt to underwrite its investments on a “loss-adjusted” basis, which projects a certain level of performance. However, there can be no assurance that this underwriting will accurately predict the timing or magnitude of such losses. To the extent that this underwriting has incorrectly anticipated timing or magnitude of losses, Limited Partners may be exposed to low or negative returns. The Fund anticipates that some mortgage loans will default. Under such circumstances, cash flows of investments held by the Fund will be adversely affected since any reduction in the mortgage payments or principal losses on liquidation of any mortgage loan are applied first to the most subordinate class outstanding of each CMBS transaction.

Increased Regulation of Mortgage Servicing Rights (“MSRs”) and Servicers. MSRs are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions. The expanding body of federal, state and local regulation may increase the cost for the Fund’s servicer to service the underlying mortgage loans which could adversely affect servicing results and the Fund’s returns. The servicing of residential mortgage loans is subject to extensive federal, state and local laws, regulations and administrative decisions. The volume of new or modified laws and regulations has increased in recent years and is likely to continue to increase. If implemented, these rules or other new laws and regulations affecting the mortgage servicing industry could increase the cost of servicing mortgage loans.

Real Estate Risk. Investing in real estate and real estate-related instruments is subject to cyclicity and other uncertainties. The cyclicity and leverage associated with real estate and real estate-related investments have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. The Fund’s real estate-related investments are secured by or otherwise relate to properties of varying types, geographic

locations, owners, tenants and other factors which could make such investments susceptible to particular types of risks relating to such factors, including local economy, real estate market conditions, special hazards and competition.

Commercial Mortgage Loans; Inability of Borrowers to Refinance or Sell the Underlying Real Property. The Fund intends to invest in loans secured by commercial real estate and will face special risks relating to commercial mortgage loans. Mortgage loans on commercial properties generally lack standardized terms, which may complicate their structure and increase due diligence costs. Commercial real estate properties tend to be unique and are more difficult to value than residential real estate properties. In addition, commercial real estate properties, particularly industrial and warehouse properties, are generally subject to relatively greater environmental risks than non-commercial properties and to the corresponding burdens and costs of compliance with environmental laws and other regulations.

Risks of Real Estate Ownership. The Fund's performance is subject to risks incident to the ownership of commercial real estate, including without limitation, the burdens of ownership of real property; inability to collect rents from tenants due to financial hardship, including bankruptcy; changes in local real estate conditions in the markets in which the Fund invests; changes in consumer trends and preferences that affect the demand for products and services offered by the relevant tenants; inability to lease or sell properties upon expiration or termination of existing leases; environmental risks related to the presence of hazardous or toxic substances or materials on the relevant properties; the subjectivity of real estate valuations and changes in such valuations over time; the illiquid nature of real estate compared to other financial assets; changes in laws and governmental regulations, including those governing real estate usage and zoning; changes in interest rates and the availability of financing; and changes in the general economic and business climate. The occurrence of any of the risks described above may cause the value of the Fund's real estate investments to decline, which could materially and adversely affect the Fund.

Risks Associated with Commercial Real Estate. The Fund may invest in commercial real estate and/or companies that invest in commercial properties and that are subject to the risks associated with such properties. If the current lease on such properties is terminated or not renewed, the applicable real estate company may be required to renovate the property, to make rent concessions in order to lease the property to another tenant or to sell the property. In addition, commercial and industrial properties are often designed for a special purpose and such real estate company may have difficulty selling the property to a party other than the tenant. These and other limitations may affect a real estate company's ability to sell or re-lease commercial or industrial properties and in turn may adversely affect returns to Limited Partners. Properties historically used for commercial purposes are more likely to contain, or may have contained, underground storage tanks for the storage of petroleum products and/or other hazardous or toxic substances. Investing in properties that conduct commercial activities may cause the applicable real estate company to be subject to increased risk of liabilities under environmental laws and regulations. The presence of hazardous or toxic substances, or the failure to properly remediate these substances, may adversely affect such real estate company's ability to sell or rent an industrial property.

Investments in New Developments. The Fund may acquire or lend against direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing. To the extent that the Fund lends against or otherwise invests in such assets, it will be 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 the Fund, including, without limitation, weather or labor conditions, material shortages or other force majeure events) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the Fund. 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.

Compliance with Real Estate Laws. In many jurisdictions in which the Fund may acquire Portfolio Investments, the laws relating to real estate lending, management and/or ownership may be complex or unclear. To the extent such laws apply to the Fund, the Fund may not be in compliance with one or more of such laws and may be liable for fines or other penalties of such non-compliance.

Environmental Liabilities. Under various U.S. federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. Those laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of such hazardous or toxic substances. The costs of investigation, remediation or removal of those substances may be substantial. The owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to asbestos containing materials, pursuant to which third parties may seek recovery from owners of real properties for personal injuries associated with asbestos containing materials. Absent succeeding to ownership or control of real property, a secured lender is not likely to be subject to any of these forms of environmental liability. If the Fund ever succeeds to ownership or control of a property and becomes subject to significant environmental liabilities, the Fund's business, financial condition, liquidity, and results of operations could be materially and adversely affected.

Violation of Various Federal, State and Local Laws May Result in Losses on Residential Mortgage Loans. Numerous federal and state consumer protection laws impose substantive requirements upon residential mortgage lenders in connection with the origination, servicing and enforcement of mortgage loans. There has been significant attention from state and federal banking regulatory agencies, state attorneys general, the U.S. Federal Trade Commission, the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, the CFPB and state and local governmental authorities regarding certain lending practices by some companies in the subprime industry, sometimes referred to as "predatory lending" practices. Sanctions have been imposed by state, local and federal governmental agencies for practices including, but not limited to, charging borrowers excessive fees, imposing higher interest rates than the borrower's credit risk warrants and failing to adequately disclose the material terms of loans to the borrowers.

Uncompleted Property Developments Risks. If the Fund invests in, or succeeds to ownership or control of, a new or uncompleted property development it may be affected by some of the various risks associated with the development of new properties, including regulatory,

construction, leasing, sales and financing risks, as well as the risk that the completed properties will be unable to achieve the targeted return on investment. Property developments typically require substantial capital outlay during the construction period and it may take an extended period of time to complete and to occupy before a potential return can be generated. The time and costs required to complete a property development may be subject to substantial extensions and increases due to many factors, including shortages of, or price increases with respect to, construction materials (which may prove defective), equipment, technical skills and labor, adverse weather conditions, third-party performance risks, environmental risks, changes in market conditions, changes in government or regulatory policies, delays in obtaining the requisite approvals, permits, licenses or certifications from the relevant authorities and other unforeseeable problems and circumstances. Any of these factors may lead to delays in, or prevent the completion of, a property development project and result in costs substantially exceeding those originally budgeted for, which the Fund may not be adequately compensated by insurance proceeds (if any) and/or contractual indemnities. This will affect the ability of the Fund to make distributions to Partners.

Third-Party Servicer. Many of the Fund's investments may comprise securities collateralized by pools of loans or receivables for which certain management functions—such as payment collection and deposit, escrow and impound collections, lender consents, record-keeping or reporting with respect to payment collections and deposits—are performed by asset servicers, including master services and special servicers. In the event that a servicer for one of the Fund's assets experiences operational or financial difficulties, the Fund's investment could experience asset deterioration or payment delay, reduction or suspension, thereby compromising the asset's value.

Affiliated Loan Originator. Additionally, the Investment Manager or one or more of its affiliates owns a minority interest in a private student loan originator, from or with which the Fund may seek to source investment opportunities that become Portfolio Investments with the approval of the Advisory Board. Such student loan originator shall not be deemed a Portfolio Investment and any income received by such student loan originator will not be considered income of the Fund and will not be subject to offset. The sourcing of such investment opportunities from the private student loan originator may not be the result of arm's-length discussions and negotiations. Independent valuations may not be the result of arm's-length discussions and negotiations. Independent valuations may not be conducted and the actual value of such loans could be more or less than such purchase price.

Fraud or Misrepresentation by Borrowers. Of paramount concern in originating or participating in loans is the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Fund or its affiliates to perfect or effectuate a lien on the collateral securing the loan. The Fund or its affiliates will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness.

Due Diligence. The General Partner's and/or Investment Manager's and their advisors due diligence may not reveal all of an entity's liabilities and may not reveal other weaknesses in its business. Before the Fund makes an investment in an entity, the General Partner and/or Investment Manager may assess the strength and skills of the entity's management and other factors that the General Partner and/or Investment Manager believes will determine the success of the investment. In making the assessment and otherwise conducting customary due diligence, the Fund will rely on the resources available to the General Partner and/or

Investment Manager and, in some cases, an investigation by third parties. This process is particularly important and subjective with respect to newly organized entities because there may be little or no information publicly available about the entities. As a result, there can be no assurance that the General Partner's and/or Investment Manager's due diligence processes will uncover all relevant facts or that any investment will be successful.

Regional, Sector or Obligor Concentrations. Some concentration with respect to particular obligors, regions and sectors is expected to exist in the Fund's investment portfolio. In addition, because redemptions and repayments of assets will occur, a concentration in any one obligor, region or sectors may occur or increase over time. Any such concentration would subject the Fund to a greater degree of risk with respect to the impact of a default by such obligor, or a greater degree of risk related to adverse business conditions in such region or sector. In addition, the market value of the real estate securing certain loans could be adversely affected by adverse market and economic conditions in that region.

Borrower Ability to Refinance. A significant portion of the Fund's assets will consist of loans for which most or all of the principal is due at maturity. The ability of the obligor(s) under such loan to make such a large payment upon maturity typically depends upon its ability to refinance the loan prior to maturity. The ability of an obligor to consummate a refinancing will be affected by many factors, including the availability of financing at acceptable rates to such obligor, the financial condition of such obligor, the marketability of the collateral (if any) securing such loan, the operating history of the obligor and related businesses, tax laws and prevailing general economic conditions. Additionally, such obligors generally have more limited access to capital and higher funding costs, may be in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from public capital markets or from more traditional sources, such as commercial banks. Consequently, such obligor may not have the ability to repay the loan at maturity and, unless it is able to refinance such loan, it could default in payment at maturity, which could result in losses to the Fund and, indirectly, to the Limited Partner.

Changes in Regulation and Enforcement; Litigation. Legal and regulatory changes could occur which may adversely affect the Fund. The effect of regulatory change on the Fund, while impossible to predict, could be substantial and adverse. Market disruptions and the dramatic increase in the capital allocated to alternative asset management funds during the recent years have led to increased governmental as well as self-regulatory scrutiny of investment funds and the financial industry in general. The European Union and the U.S. Congress have passed into law sweeping financial regulatory reform legislation as a direct response to this scrutiny. Such oversight and regulation may cause the Fund to incur additional expense, may divert the attention of the General Partner and the Investment Manager's senior management and may result in fines or other regulatory action if the Fund is deemed to have violated any regulations. It is currently very difficult to predict what, if any changes, in the regulations applicable to the Fund, the General Partner, the Investment Manager and/or any of their advisers and/or managers or the markets in which they trade and invest, or the counterparties with which they do business, may be instituted in the future. Any such regulations could have a material adverse impact on the ability of the Fund to operate in the ordinary course and on the profit potential of the Fund, as well as require increased transparency as to the identity of its investors.

Item 9: Disciplinary Information

The adviser has no legal or disciplinary events that would be material to an Investor's or prospective investor's evaluation of our advisory business or the integrity of our management.

Item 10: Other Financial Industry Activities and Affiliations

Neither we nor our management persons are registered as broker-dealers, and neither of us has any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer, respectively.

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

Code of Ethics

1543 has adopted a “**Code of Ethics**” that establishes the high standard of conduct that we expect of our employees and procedures regarding our employees’ personal trading of securities. Our employees are required to certify their adherence to the terms set forth in the Code of Ethics upon commencement of employment and annually thereafter.

The foundation of our Code of Ethics is based upon the following underlying fiduciary principles:

- Employees must at all times place the interests of the Funds and Investors first;
- Employees must ensure that all personal securities transactions are conducted consistent with the Code of Ethics’ Employee Personal Investment Policy (described below); and
- Employees should not take inappropriate advantage of their position at the Firm.

Employees and Covered Accounts are permitted to maintain personal brokerage accounts for the purpose of trading single named securities that they hold after commencement of employment and after. Employees and Covered Accounts are permitted to liquidate positions held at the time of employment (a “**Liquidating Trade**”) and trade in single named securities subject to pre-clearance by the CCO. Employees are prohibited from participating in Initial Public Offerings (“**IPOs**”). Employees are also prohibited from personally, or on behalf of a Client, purchasing or selling securities that appear on the Firm’s Restricted List.

Employees must also obtain pre-approval from the CCO before: (i) engaging in any outside business activities; or (ii) making any private investments. The transactions will not be approved if they conflict with the interests of our clients.

We will provide a copy of our Code of Ethics to our Investors, or any prospective investor, upon request, to be viewed on the premises.

Item 12: Brokerage Practices

1543 is authorized to determine the broker-dealer to be used for executing securities transaction for the Funds. In selecting broker-dealers to execute transactions, we do not need to solicit competitive bids and do not have an obligation to seek the lowest available commission cost. It is not our practice to negotiate “execution only” commission rates;

therefore, the Funds may be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate.

We shall also have the authority to select and appoint custodians of the assets of the Funds. The Firm's authority is limited by its own internal policies and procedures and each Fund's investment guidelines.

Best Execution

In selecting an appropriate broker-dealer to effect a client trade, we seek to obtain "**Best Execution**," meaning generally the execution of a securities transaction for a client in such a manner that a client's total costs or proceeds in the transaction are most favorable under the circumstances. Accordingly, in seeking Best Execution, we will take into consideration the price of a security offered by the broker-dealer, as well as a broker-dealers' full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to us, brokerage and research services provided to us (for example, research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services.

The Firm does not seek or receive research from broker-dealers we use to execute securities transactions

Neither 1543 nor any related person receives client referrals from any broker-dealer or third party. However, subject to best execution, we may consider, among other things, capital introduction and marketing assistance with respect to Investors in the Funds in selecting or recommending broker-dealers for the Funds.

The provision by a broker of research and other services and property to us creates an incentive for us to select such broker since we would not have to pay for such research and other services and property as opposed to solely seeking the most favorable execution for a client. Any research, services or property provided by a broker may benefit any client and such benefits may not be proportionate to commission dollars related to the provision of such research, services or property.

Item 13: Review of Accounts

Our Portfolio Managers and investment professionals continuously monitor and analyze the transactions, positions, and investment concentrations of the Funds and other client account over which we have discretionary authority to ensure that they conform with the investment objectives and guidelines that are stated in the Fund's Offering Documents. In these reviews, the Firm pays particular attention to any changes in the investment's fundamentals, overall risk management and changes in the markets that may affect price levels.

Account Reporting

We perform various periodic reviews of each client's portfolio. Such reviews are conducted by our officers.

We will distribute an audited financial report with respect to the previous fiscal year to all Investors within 120 days of fiscal year end. For certain Funds we may also distribute quarterly

unaudited net asset value statements, quarter-end performance reports, and a quarterly investor letter to each Investor.

Item 14: Client Referrals and Other Compensation

We do not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither we nor any of our related persons, directly or indirectly, compensate any person who is not an employee for client referrals.

Item 15: Custody

Custody of Fund assets is maintained with First Republic Bank. Audited financial statements of each Fund will be prepared annually and delivered to investors within 120 days of the close of the Fund's fiscal year.

Item 16: Investment Discretion

We will have full discretionary investment authority with respect to the Funds, including authority to make decisions with respect to which securities to be bought and sold, as well as the amount and price of those securities. We may not accept or be given discretionary authority with respect to other accounts. Whether or not we receive discretionary authority, we will always advise clients in accordance with the investment objectives set forth in the management agreement with the client.

Item 17: Voting Client Securities

We have adopted proxy voting policies and procedures. The general policy is to vote all proxy proposals, amendments, consents or resolutions (collectively, "**Proxies**") in a prudent and diligent manner that will serve the applicable Client's best interests and is in line with the Client's investment objectives.

Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

Item 18: Financial Information

1543 is not aware of any financial condition reasonably likely to impair our ability to meet contractual commitments to Clients.