

Item 1

COVER PAGE

PART 2A OF FORM ADV: FIRM BROCHURE

H/2 CREDIT MANAGER LP

March 30, 2023

H/2 Credit Manager LP
680 Washington Boulevard
Stamford, CT 09601
Tel: (203) 569-4000
Fax: (203) 569-4178

THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF H/2 CREDIT MANAGER LP (THE “ADVISER”). IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US AT + 1 - 203-569-4000. THE INFORMATION IN THIS BROCHURE HAS NOT BEEN APPROVED OR VERIFIED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (“SEC”) OR BY ANY STATE SECURITIES AUTHORITY. REGISTRATION AS AN INVESTMENT ADVISER WITH THE SEC OR NOTICE FILING WITH ANY STATE SECURITIES AUTHORITY DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.

ADDITIONAL INFORMATION ABOUT THE ADVISER IS ALSO AVAILABLE AT THE SEC’S WEBSITE, www.adviserinfo.sec.gov.

Item 2 – Material Changes

This is the eleventh annual update since the initial filing on February 13, 2012 by H/2 Credit Manager LP (the “Adviser”) of Part 2A of the Adviser’s Form ADV (Part 2A, the “Brochure”). The Adviser believes that none of the updates made to the Brochure since the initial filing are material.

In future filings by the Adviser, this section of the Brochure will continue to address only material changes that have been incorporated since the Adviser’s last delivery or posting of this document on the SEC’s public disclosure website (IAPD), www.adviserinfo.sec.gov.

The Adviser may, at any time, update this Brochure and either send you a copy or offer to send you a copy (either by electronic means (email) or in hard copy form).

Item 3 – Table of Contents

Item 1 – Cover Page	i
Item 2 – Material Changes	ii
Item 3 – Table of Contents.....	iii
Item 4 – Advisory Business	1
Item 5 – Fees and Compensation	3
Item 6 – Performance-Based Fees and Side-By-Side Management.....	5
Item 7 – Types of Clients.....	6
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss	7
Item 9 – Disciplinary Information	29
Item 10 – Other Financial Industry Activities and Affiliations.....	30
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	31
Item 12 – Brokerage Practices	33
Item 13 – Review of Accounts.....	35
Item 14 – Client Referrals and Other Compensation	36
Item 15 – Custody.....	37
Item 16 – Investment Discretion.....	38
Item 17 – Voting Client Securities (Proxy Voting).....	39
Item 18 – Financial Information	40

Item 4 – Advisory Business

A. General Description of Advisory Firm

The Adviser, a Delaware limited partnership, was formed in May 2004 and has its principal offices in Stamford, Connecticut. The general partner of the Adviser is H/2 Credit Manager GP LLC. The managing member and controlling owner of H/2 Credit Manager GP LLC is Spencer B. Haber.

The Adviser and its investment advisory affiliates and advisers identified in the Adviser's Form ADV, Part 1A (each, an "Investment Advisory Affiliate" or a "Relying Adviser" and sometimes collectively with the Adviser, the "Advisers") provide investment advisory and asset management services to U.S. and non-U.S. pooled investment vehicles operating as private investment funds (each, a "Client" and collectively, the "Clients") based on their respective investment objectives.

B. Description of Advisory Services

The Advisers serve as investment advisers to the Clients as set forth in the investment management agreements with the Clients and in each Client's governing documents.

The Advisers provide advice on a discretionary basis to the Clients primarily in respect of investments in private and/or public debt and other fixed income-related investments, in or relating to commercial real estate and related sectors.

Please refer to Item 8 for a more detailed description of the Advisers' investment strategies as well as the securities, and other instruments, purchased by the Clients under the management of the Advisers.

C. Availability of Customized Services for Individual Clients

The Advisers' investment decisions and advice with respect to each Client are subject to each Client's investment objectives and guidelines, as set forth in its offering documents.

In addition, the Advisers have the right to enter and have entered into agreements, such as side letters, with certain underlying investors of the Clients that may provide additional obligations on the Advisers or grant additional rights to the investors than what is provided to other underlying investors of the Clients.

Persons reviewing this Form ADV Part 2A should not construe this as an offering to any of the Clients described herein, which will only be made pursuant to the delivery of a private placement memorandum to prospective investors.

D. Wrap Fee Programs

The Advisers do not participate in wrap fee programs.

E. Assets Under Management

The regulatory assets under management (including uncalled capital commitments) that the Adviser, its Investment Advisory Affiliates and Relying Advisers managed on a discretionary basis equaled \$4,731,689,545 (the “RAUM”), using a December 31, 2022 valuation date for all Clients. As of December 31, 2022, the Advisers do not manage any assets on a non-discretionary basis.

Item 5 – Fees and Compensation

A. Advisory Fees and Compensation

The Advisers are entitled to compensation for their services in the form of a management fee (the “Management Fee”). The Advisers calculate the Management Fee based on a variety of methods depending on the particular Client, including based on net asset value or invested capital contributions. The Management Fee rates range up to 1.5% per annum.

The Advisers are entitled to performance-based fees or allocations which are fees/allocations based on a share of net capital appreciation or net profits. Performance-based compensation varies depending on the particular Client, and may be subject to preferred return thresholds, “highwater mark” or loss carryforward provisions, and/or clawbacks. The performance-based compensation rates range up to 20%.

All fees and incentive allocations applicable to the Clients are disclosed in the relevant offering documents, as supplemented from time to time, and/or governing documents (limited partnership agreements, memoranda and articles of association, investment management agreements or similar agreements), as supplemented from time to time, of each Client.

The management fees and incentive allocations described above may from time to time be reduced or waived by the Advisers in their discretion with respect to certain underlying investors in the Clients, including affiliates of the Advisers.

B. Payment of Fees

Management fees, incentive allocations and carried interest are deducted directly from the Clients’ assets.

C. Additional Fees and Expenses

Generally, each Client will be responsible for all costs and expenses relating to the organization of such Client and of maintaining the activities and operations of such Client and its investments and other expenses, paid by or on behalf of such Client. Not all of the Clients bear all of the expenses set forth below; however, the following sentence generally sets forth the expenses that Clients may bear. To the extent permitted under the applicable offering and governing documents, the fees and/or expenses that the Clients may pay directly to third parties may include, without limitation: (i) legal, regulatory, audit and tax preparation expenses, consulting, financing and accounting fees and expenses (including “middle-office” and “back-office” services); (ii) fees and expenses of a Client’s advisory board or board of directors; (iii) expenses associated with the preparation of a Client’s financial statements, tax returns and K-1s; (iv) expenses associated with periodic reporting to a Client and its investors; (v) expenses associated with the sourcing, investigation, negotiation, acquisition, investment, trading, financing, hedging, management and disposition and risk management of such Client’s investments, temporary investments and prospective investments, whether or not such investments are consummated (e.g., brokerage commissions and other investment and/or trading expenses/costs; expenses related to hedging instruments; clearing, settlement and custodial fees and expenses; interest charges and financing and other bank fees; research and due diligence costs;

consulting, legal and other professional fees relating to investments, risk management and related due diligence; and investment-related travel expenses); (vi) insurance- related expenses, including, without limitation, directors' and officers' insurance; (vii) fees to a third party administrator of a Client; (viii) any taxes, fees or other government charges levied against a Client; (ix) expenses incidental to the offer and sale of interests/shares in a Client; (x) indemnity expenses; (xi) the fees and expenses of third-party trustees, servicers, special servicers, property management and/or leasing agents paying agents and other professional service providers; (xii) the costs and expenses of any litigation involving such Client; (xiii) organizational expenses; and (xiv) extraordinary expenses.

D. Prepayment of Fees

For certain Client investment vehicles that incorporate withdrawal or redemption provisions, in the event that a Client's net asset value is reduced in connection with a withdrawal or redemption by an investor of such Client other than as of the last day of a period, the Adviser or the applicable Investment Advisory Affiliate or Relying Adviser will pay such Client an amount equal to the pro rata portion of the Management Fee, based on the actual number of days remaining in such period, and such Client will distribute such amount to the investor.

E. Additional Compensation and Conflicts of Interest

Neither the Advisers nor their supervised persons accept additional compensation for the sale of securities or other investment products to the Clients.

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

Each Client is subject to an incentive allocation or carried interest that is allocable to certain of the Advisers as performance-based compensation. As a result, the Advisers do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based compensation from some Clients, but not from other Clients.

Item 7 – Types of Clients

The Clients to whom the Advisers provide investment management services and advice are U.S. and non-U.S. pooled investment vehicles operating as private investment funds that are offered to investors on a private placement basis. The investors in the Clients are primarily comprised of pension and benefit plans, sovereign wealth funds, insurance companies, foundations and other institutional investors.

The offering documents and/or governing documents of each Client may set minimum amounts for investment by prospective investors in such Client. These minimum amounts may be waived by the Advisers.

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

A. Method of Analysis and Investment Strategies

Investment Strategies

The Clients generally invest in a broad range of commercial real estate and related asset-heavy operating entities, with a focus on credit investments, including, without limitation: (i) syndicated bank loans; (ii) debt securities and listed equity (such as real estate investment trust bonds and common stock); (iii) preferred securities; (iv) commercial mortgage-backed securities (“CMBS”) and commercial mortgage loans; and (v) interest rate and/or credit hedging instruments related to the above asset classes and investments, including interest rate swaps and/or credit default swaps.

The Clients’ investment portfolios differ based on whether they concentrate their investments in a single one of these strategies, all of the strategies or less than all of the strategies.

A more detailed description of key aspects of the investment strategy the Advisers utilize on behalf of the Clients, a description of the types of investments in which the Clients invest, and a discussion of risk management procedures are set forth in the offering documents and/or governing documents of the Clients.

Methods of Analysis

The Advisers rely on both internally-generated and third-party data sources to evaluate potential investment opportunities and to monitor existing holdings. The Advisers’ internally-generated financial analyses are used to evaluate prospective investments and monitor existing holdings. The Advisers’ investment and risk management procedures are based, in part, on the on-going collection of credit performance statistics and updated collateral information from various third-party sources, including borrowers, broker-dealers, rating agencies, governmental agencies and data vendors. In addition to such internally-generated research, the Advisers analyze external research and market data services as part of their evaluation of potential investment opportunities and their on-going monitoring of existing holdings. These databases and models provide the foundation for a systematic, bottom-up credit analysis when evaluating potential investments or monitoring portfolio holdings. The Advisers also use top-down analyses of economic data, industry trends and capital flows in evaluating potential investments and managing portfolio holdings.

The descriptions set forth in this Brochure of specific advisory services that the Advisers offer to the Clients, and investment strategies pursued and investments made by the Advisers on behalf of the Clients, should not be understood to limit in any way the Advisers’ investment activities. The Advisers may offer any advisory services, engage in any investment strategy and make any investment, including those not described in this Brochure that the Advisers consider appropriate, subject to each Client’s investment objectives and guidelines. The investment strategies the Advisers pursue entail risks. There can be no assurance that the investment objectives of any Client will be achieved.

B. Risk of Loss

The following risk factors may not be applicable to all of the Clients. The offering documents contain descriptions of certain of the risks associated with Client investments. The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the Clients advised by the Adviser. These risk factors include those risks the Advisers believe to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Advisers.

Investment and Trading Risks. An investment in the Clients involves various degrees of risk, which vary depending upon the Clients' particular investment strategies. Such risks may be high, including the risk that the entire amount invested may be lost. The Advisers, on behalf of the Clients, invest in financial instruments using strategies and investment techniques with significant risk characteristics, including (for certain Clients) the risks of leverage, the potential illiquidity of financial instruments, the risk of loss from counterparty defaults and the risk of borrowing to meet redemption requests. Investments made by Clients involve the risk of loss of capital. No guarantee or representation is made that any Client's investment program will be successful, that a Client will achieve its targeted returns or that there will be any return of capital invested, and investment results may vary substantially over time.

Investments in Commercial Real Estate Securities and Loans and Securities Generally. The Advisers, on behalf of the Clients, may invest in liquid, performing, stressed, distressed and illiquid securities backed by loans or loans themselves (including participation interests in loans), and may also include recapitalization and/or rescue financing transactions. In the case of securities, such securities are issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. Risks affecting real estate investments generally (and especially stressed or distressed real estate investments) include general economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. The cyclicity and leverage associated with 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. In addition, commercial mortgage loans generally are non-recourse loans, lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. In some cases, the properties securing commercial mortgage loans may be subject to additional debt that may affect the related borrower's ability to refinance the loan and/or result in reduced cash flow and deferred maintenance. Additional risks may be presented by the type and use of a particular commercial property. For instance, commercial properties that operate as nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and other lodging properties, as well as gaming properties, are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator; and the transferability of such property's operating, liquor and other licenses upon a transfer of the property, whether through purchase or foreclosure, is subject to local law requirements. Commercial properties that are being developed present special risks to lenders because of the lack of cash flow during the construction stage, as well as the possibility of delays in

construction resulting from the need for governmental approvals, unforeseen engineering, environmental and geologic problems, work stoppages, material and equipment shortages, weather problems and unanticipated cost increases. All of these factors increase the risks involved with commercial real estate lending. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one- to four-family lending, since it typically involves larger loans to a single borrower or related borrowers than residential one- to four-family lending.

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 loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. 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 or the existence of independent income or assets of the borrower. Furthermore, the net operating income from and value of any commercial property may be adversely affected by risks generally incidental to interests in real property, including events that the borrower or the manager of the property, or the issuer or servicer of the related issuance of real estate securities, may be unable to predict or control, such as changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; pandemics and related disruption; acts of war; acts of terrorism; and social unrest and civil disturbances. While not a current or historical focus of the Advisers' investment activities, commercial mortgage lenders making construction and development loans have special additional risks, because there is no significant cash flow during the construction or development period and the risk exists that because construction may be delayed or not completed, the receipt of cash flow on the project may also be delayed or may not materialize. In addition, for construction and development loans, there rarely exists a history of operations on which to base projections of debt service coverage following the completion of the project. The value of commercial properties is also subject to a number of laws, such as laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption. As discussed herein, such laws may also expose the lender to certain liabilities.

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 purpose becomes unprofitable. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, 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. In the case of real estate securities, the exercise of remedies and successful realization of liquidation proceeds may be highly dependent on the performance of third-party servicers or special servicers, of which there may be a limited number and which

may have conflicts of interest in any given situation.

Commercial mortgage loans may lack regular amortization of principal, resulting in a single “balloon” payment due at maturity. If the underlying mortgage borrower experiences financial difficulties, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default.

Stressed or Distressed Real Estate Loan and Securities Investments. Investments in stressed or distressed real estate loans and securities and related assets have greater risks than investments in such loans and securities which are not stressed or distressed. Such loans, securities and other assets are frequently sub-performing or non-performing in nature, and the risk of default and loss on such investments is therefore higher than the risks relating to investments in performing loans, securities and other assets. There can be no assurance that such investments will exceed performance expectations or increase in value, or that such investments will not eventually become worthless. In such situations, a Client may through foreclosure, deed-in-lieu of foreclosure or other realization strategies acquire direct ownership interests in the real property or properties which serve as collateral for such loans or securities. The costs associated with such acquisition and the operation and disposition of such properties once acquired may be high. Such investments generally tend to be highly volatile and risky. Such investments generally tend to be highly volatile and risky. Such investments are even riskier when the investor does not hold a controlling position in such investment, and there can be no assurance that a Client will acquire such a controlling position. No assurance can be given that a Client will be able to acquire loans or securities on terms, including financing terms, favorable to the Client. Any one of the foregoing events could have an adverse effect on the financial condition, results of operations and cash flow of, and an investor’s ownership interest in, the Client.

Uncontrollable Factors Affecting Performance and Value. Investments in the real estate and related sectors are subject to varying degrees of risk. The yields available from such investments generally depend on the structure of the investment and the success of the property or properties which effectively serve as collateral for such investments as evidenced by the amount of net operating income earned and capital appreciation generated by such properties. Income from, and the value of, the Clients’ investments may be adversely affected by adverse events in the real estate securities or lending market generally, increases in interest rates generally, downward changes in the rating levels of such investments, decreases in the amount of credit available in that market, the general economic climate and local economic conditions in the areas where such properties are located.

Concentration of Investments in the Real Estate and Related Sectors. A Client’s investment will consist largely or entirely of investments in the real estate and hard-asset areas. Such concentration in one or more related economic sectors may increase the volatility of a Client’s returns and increase a Client’s potential for losses.

Commercial Mortgage-Backed Loans and Securities. A Client’s portfolio may include commercial mortgage-backed securities and other senior and subordinated loans and participation interests. Commercial mortgage-backed securities are securities backed by obligations (including certificates of participation in obligations) that are principally secured by

interests in real property having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels and healthcare facilities. Commercial mortgage-backed securities have been issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. Commercial mortgage loans may lack standardized terms and may provide for the repayment of all or substantially all of the principal only at maturity, increasing the risk involved with commercial real estate credit instruments. Commercial properties tend to be unique and are more difficult to value than single-family residential properties.

Most commercial mortgage loans and loans underlying mortgage-backed securities are effectively non-recourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the loans or the related mortgage-backed securities are likely to be adversely affected. The ultimate extent of the loss, if any, to the lender or the classes of mortgage-backed securities may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed-in-lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related loans or mortgage-backed securities. Revenues from the assets underlying such loans or mortgage-backed securities may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

Market Shifts. Many of the loans, securities and other financial instruments in which some of the Advisers invest on behalf of the Clients are complex, and their market values are sensitive to changes in various market conditions. An Adviser's ability to hedge the portfolio could be reduced by a variety of factors such as very rapid changes in interest rates, spreads and volatility conditions, and by market dislocations caused by other factors such as regulatory changes and unanticipated political and economic changes.

Effects or Consequences of the COVID-19 Pandemic. The worldwide pandemic (the "Pandemic") arising from the outbreak of infections caused by a novel coronavirus ("COVID-19") has significantly disrupted conditions in certain segments of U.S. and non-U.S. economies and markets. In the United States and elsewhere, actions intended to mitigate the spread of COVID-19 have, in some cases, caused a sharp increase in unemployment and created significant uncertainty and volatility in business conditions generally. The ongoing trajectory of the Pandemic will depend on a number of factors that are essentially impossible to predict and over which the Advisers are likely to have little or no control, including, among other things: the severity and duration of the Pandemic on the whole; the emergence of COVID-19 variants that may be disruptive to travel or other economic conditions by virtue of their increased

infectiousness or morbidity; the Pandemic's near-term and lasting effects on the U.S. and global economies; the timing, scope and effectiveness of additional governmental responses to the Pandemic; the timing, speed and availability of distribution and variability in population uptake of vaccinations or other treatments for COVID-19; and the impact of the Pandemic and measures taken in response to it on overall supply and demand for goods and services, liquidity in the financial markets, consumer confidence and the types and extents of disruptions to important global, regional and local supply chains and economic markets. Many economists are predicting extended recessions at local, state, regional, national, supranational and worldwide levels. Across jurisdictions, markets and business sectors that have been affected, economic recovery, if and when it arrives, could be highly uneven.

Difficult market and economic conditions may adversely affect the value of the Clients' assets. Worsening economic conditions could lead to decreases in the value of the Clients' assets, and could therefore result in a decrease in income. Such conditions may prevent the Clients from increasing investments or force a Client to prematurely liquidate assets and harm its performance.

Economic Slowdowns and Stress in Credit Markets. Economic and financial market events in recent years and decades have caused significant disruptions, illiquidity and volatility in the credit markets, as well as in the wider global capital and financial markets. This market disruption is typically accompanied by decreased consumer demand for businesses with assets that may serve as underlying collateral for the Clients' investments. At the present time, there continues to be concern about significant negative effects on the U.S. and world economies arising from the Pandemic, political instability, instability with respect to rules for international trade and other matters. There can be no assurance that the economy will improve, or that market conditions will not deteriorate (including for reasons that could have little or no connection to the Pandemic). In addition, turbulence in international markets and economies may negatively affect the U.S. economy and financial markets.

The owners of the assets underlying investments of the Clients, as well as obligors on loans or other securities constituting the Clients' assets, may be susceptible to economic slowdowns or recessions and may be unable to repay loans during these periods. Therefore, the Clients' non-performing assets are likely to increase and the value of the Clients' assets is likely to decrease during these periods. Economic slowdowns or recessions could lead to financial losses of the Clients' assets and a decrease in their revenues, net income and assets. Unfavorable economic conditions also could increase funding costs, limit access to the capital markets or result in a decision by lenders not to extend credit to the Clients. These events could prevent the Clients from increasing investments or force a Client to prematurely liquidate assets and harm its performance.

The failure of an obligor on a loan or other security constituting a Client asset to satisfy financial or operating covenants could lead to defaults and, potentially, termination of its loans or securities and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize such obligor's ability to meet its obligations under the loans or other securities that the Client holds. The Client may need to incur additional expenses to seek recovery upon default or to negotiate new terms with a defaulting obligor.

Prepayment and Extension Risk. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to defaults and foreclosures) occur on a Client's investments and the possibility of a Client's investments being extended in duration will be affected by a variety of factors, including the prevailing level of interest rates and the availability of refinancing opportunities, as well as economic, demographic, tax, social, legal and other factors. In general, "premium" loans and securities (loans and securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" loans and securities (loans and securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments and other forms of extension.

The adverse effects of prepayments may impact a Client's portfolio in two ways. First, particular investments may experience outright losses in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Advisers may have constructed for these investments, resulting in a loss to a Client's overall portfolio. In particular, prepayments (at par) may limit the potential upside of many loans and mortgage-backed securities to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

Extensions also may impact a Client's portfolio and extend the time it would take to receive cash flows, thereby potentially compressing the yield on such investments, increasing the potential for loss on any related hedges and increasing the potential for loss on such investments. Further, the longer the extension, the more likely such extension will have a significant impact on a Client's performance. Any extensions granted to obligors may expose a Client to the risk that it may not be able to reinvest the proceeds which would have been received but for the extension at an interest rate at least equal to the rate borne by the extended asset.

Floating-Rate Mortgage-Backed Loans and Securities. Certain loans carrying floating rates of interest and certain mortgage-backed securities are backed by floating-rate loans. The market value of the adjustable-rate loans and mortgage securities in which the Advisers, on behalf of the Clients, invest may be adversely affected if the underlying mortgage loans contain provisions limiting the amount by which their rates may be adjusted upward (periodic rate caps) in response to rising interest rates, or limiting the amount by which payments may be increased to accommodate upward adjustments in interest rates (periodic payment caps). The market value of adjustable-rate loans or securities may also be adversely affected to the extent that mortgages are subject to lifetime rate caps.

Subordinated Loans and Mortgage-Backed Securities. Investments in subordinated loans and mortgage-backed securities involve greater credit risk of default than the senior classes of the issue or series. Many of the default-related risks of whole loan mortgages will be magnified in subordinated loans and securities.

Risks of Investing in REITs and Other Real Estate Fixed Income Securities. The Advisers, on behalf of the Clients, may invest in securities issued by entities which qualify as "real estate investment trusts" under the Internal Revenue Code of 1986, as amended ("REITs"), and in securities of non-REIT issuers. As a result, some of a Client's investments are subject to the

risks incident to investments in companies engaged in real estate and related activities, generally including: (i) potential environmental liabilities, the risk of uninsured losses, the perceptions of prospective tenants of the properties, the ability of the owner to provide adequate management, maintenance and insurance, the expenses of periodically renovating, repairing and reletting spaces, and increasing operating costs (including mortgage payments, real estate taxes, insurance, maintenance costs and utilities) which may not be passed through to tenants; (ii) risks of owning properties through joint ventures or partnerships which may render a company engaged in real estate activities unable to exercise sole decision-making authority and subject the company to the risk that a joint venturer or partner will act in a manner contrary to its best interests; (iii) general real estate investment considerations, such as the effect of local economic and other conditions on property cash flows and values, the need to relet space upon the expiration of current leases, dependence on major tenants and the possibility of tenant defaults, the ability of a property to generate revenue sufficient to meet debt service payments and other operating expenses, the development of competitive properties, and the illiquidity of real estate properties, all of which may affect the borrower's ability to make expected distributions or limit its ability to vary its holdings promptly in response to changes in local economic or other conditions; and (iv) risks associated with the management of properties owned by third parties, including the risk that management contracts (which are typically cancelable with little or no notice) will be terminated by the entity controlling the property or in connection with the sale of such property, that contracts may not be renewed upon expiration or may not be renewed on terms consistent with current terms, and that the rental revenues upon which management fees are based will decline as a result of general real estate market conditions or specific market factors.

Investments in REITs are also subject to special risks, including, without limitation: tax risks, including risk of changes in the tax laws that may cause a REIT to fail to qualify as a REIT or cause REITs, generally, to be subject to corporate taxation, and limitations on a REIT's ability to sell properties at a time when it is otherwise economically advantageous to do so.

Lower Credit Quality Loans and Securities. There are no restrictions on the credit quality of the investments of the Clients. Loans and securities in which the Advisers, on behalf of the Clients, invest may be stressed or distressed and may be deemed by rating agencies to have greater vulnerability to default in payment of interest and/or principal. Other loans and securities may have low credit ratings or may be unrated. Lower-rated and unrated loans and securities in which the Advisers, on behalf of the Clients, invest may have large uncertainties or risk exposures to adverse conditions, and are considered to be predominantly speculative. Generally, such loans and securities offer a higher return potential than higher-rated loans or securities, but involve greater volatility of price and greater risk of loss of income and principal.

The Advisers, on behalf of the Clients, may invest in the loans and securities of smaller, unseasoned real estate-related companies. These investments may present greater opportunities for growth, but also involve greater risks than customarily are associated with investments in securities of more established companies. Some of the companies in which Advisers may invest will be younger companies, which may have insubstantial operational or earnings history or may have limited financial resources or management depth. Securities of emerging companies may lack an active secondary market and may be subject to more abrupt or erratic price movements than securities of larger, more established companies in general.

Competitors of certain companies may have substantially greater financial resources than some of the companies in which the Clients may invest.

The market values of certain loans and securities (such as subordinated loans and securities) also tend to be more sensitive to changes in economic conditions than higher-rated loans and securities. In general, the ratings of nationally-recognized rating organizations represent the opinions of these agencies as to the quality of loans and securities that they rate. Such ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

Bank Loans. A Client's investment program may include investments in bank loans and participations owned in cash form or pursuant to total rate of return swaps. These obligations (or the obligations underlying the total rate of return swaps) are subject to risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called "lender liability" claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on a Client's ability to directly enforce its rights with respect to participations. In analyzing each bank loan or participation, the Advisers compare the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the applicable Client. Furthermore, because of the nature of bank loans, there may be no liquid market for their disposal.

Credit Default Swaps. The Advisers may enter into credit default swaps on behalf of certain Clients as a buyer or seller of credit protection. A credit default swap is a contract between two parties which transfers the credit risk of an entity (the "Reference Entity") for a defined period whereby, if a Credit Event occurs, the credit default swap seller pays a predetermined amount to the credit default swap buyer. A "Credit Event" is commonly defined as the Reference Entity: (i) failing to pay principal or interest on time; (ii) entering bankruptcy; and (iii) in certain instances, restructuring its debt. The buyer of credit protection pays a premium to the seller of credit protection until the earlier of a Credit Event or the scheduled termination date of the credit default swap. In such instance, a Client purchasing protection pays a premium regardless of whether there is a Credit Event. The use of credit swaps also involves the risk of loss if an Adviser is incorrect in its expectation of the timing or level of fluctuations in securities prices.

High Yield Bonds. The Advisers, on behalf of the Clients, may invest in high yield bonds, which are generally unsecured and may be subordinated to certain other obligations of the obligor thereof. The lower rating of financial instruments in the high yield sector reflects a greater possibility that adverse changes in the financial condition of an obligor or in general economic conditions or both may impair the ability of the obligor to make payments of principal and interest. In addition, the market for high yield debt financial instruments is not liquid at all times and for all obligors. Particular issues may be held by only a few investors, many of such obligations are not registered under the Securities Act, most are not listed on a securities exchange and market-making activity, if any, may cease during the life of such obligations. Due to potential market volatility, the market value of such high yield bonds will vary, and may

vary substantially, from the price at which such high yield bonds were initially purchased.

Liquidity of Futures Contracts. In addition to the risks associated with trading in futures and options on futures that arise from the leverage and volatility associated with such investments, futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Advisers from promptly liquidating unfavorable positions and subject a Client to losses. In addition, the Advisers may not be able to execute futures contract trades on behalf of the Clients at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the Commodity Futures Trading Commission may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

Non-U.S. Investments. A Client’s portfolio may include non-U.S. investments. Such investments require consideration of certain risks typically not associated with investing in the U.S. Investments in securities or loans of non-U.S. issuers or borrowers and securities denominated or whose prices are quoted in non-U.S. currencies pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks which could include expropriation of assets, confiscatory taxation and economic or political instability in non-U.S. nations.

With respect to certain countries, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of funds or other assets of a Client, political or social instability, illiquidity, price volatility, market manipulation or diplomatic developments that could affect investments in those countries. An issuer of loans or securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the markets of different countries and their associated risks are expected to change independently of each other.

In addition, less information may be available regarding securities of non-U.S. companies than would be the case for comparable companies in the U.S., and certain non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies. Financial markets outside the U.S., while growing in volume, have for the most part substantially less volume than U.S. markets, and many securities traded on these non-U.S. markets are less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, settlement of trades in some non-U.S. markets may be slower and more subject to failure than in U.S. markets. There also may be less extensive regulation of the financial markets in particular countries than in the U.S. Transaction costs of originating or investing in non-U.S. securities or loan markets are generally higher than in the U.S., and there may be less government supervision and regulation of

exchanges, brokers and issuers than there is in the U.S. A Client may have greater difficulty taking appropriate legal action in non-U.S. courts.

Preferred Securities. Preferred securities generally have a preference as to dividends and upon the event of liquidation over an issuer's common interests, but rank junior to debt securities in an issuer's capital structure. Preferred securities generally pay dividends in cash (or additional shares of preferred securities) at a defined rate, but unlike interest payments on debt securities, preferred securities dividends are payable only if declared by the issuer's board of directors. Dividends on preferred securities may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred securities, no dividends may be paid on the issuer's common interests until all unpaid preferred securities dividends have been paid. Preferred securities may also be subject to optional or mandatory redemption provisions.

There are special risks associated with investing in preferred securities, including: (i) provisions of the preferred securities that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer, even though a Client may be required to report income for tax purposes although it has not yet received such income; and (ii) provisions of the preferred securities that give no voting rights to the holder of the preferred securities with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the issuer's board.

Common Stock. The Advisers, on behalf of the Clients, may acquire common stock upon the conversion of distressed credit investments, in special situation investing or otherwise. Investments in common stock generally entail more risk and can be more volatile than investments in an issuer's debt or preferred interests, primarily because debt and preferred interests rank senior to common stock in an issuer's capital structure. For example, investments in common stock may yield little to no recovery in a bankruptcy event.

Bankruptcy and Restructuring Risks. The owners of the properties which secure the assets of a Client and the obligors on loans or other securities constituting assets of such Client may seek the protection afforded by bankruptcy, insolvency and other debtor relief laws. One of the protections offered in such proceedings is a stay in required payments on such loans or securities. A stay on payments to be made on the assets of a Client could adversely affect the value of those assets and the value of the interests of such Client. Other protections in such proceedings include forgiveness of debt, the ability to create superpriority liens in favor of certain creditors of the debtor and certain well-defined claims procedures.

There are a number of other significant risks inherent in the bankruptcy process. First, many events in a bankruptcy are the product of contested matters and adversarial proceedings, and are beyond the control of the creditors. While creditors are generally given an opportunity to object to significant actions, there can be no assurance that a bankruptcy court in the exercise of its broad powers would not approve actions that would be contrary to the interests of a Client. Second, the effect of a bankruptcy filing on an obligor may adversely and permanently affect the obligor. The obligor may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. If for this or any other reason the proceeding

is converted to a liquidation, the value of the obligor may not equal the liquidation value that was believed to exist at the time of the investment. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor's return on investment can be adversely affected by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court and until it ultimately becomes effective. Fourth, the administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the debtor's estate prior to any return to creditors. For example, if a proceeding involves protracted or difficult litigation, or turns into a liquidation, substantial assets may be devoted to administrative costs. Fifth, bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization. Because the standard for classification is vague, there exists the risk that the Advisers' influence on behalf of the Clients with respect to the class of securities or other obligations owned by such Clients can be lost by increases in the number and amount of claims in that class or by different classification and treatment. Sixth, in the early stages of the bankruptcy process it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. Seventh, especially in the case of investments made prior to the commencement of bankruptcy proceedings, creditors can lose their ranking and priority if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions. Eighth, certain claims that have priority by law (for example, claims for taxes) may be substantial. In any investment involving stressed or distressed assets, there exists the risk that the transaction involving such assets will be unsuccessful, take considerable time or will result in a distribution of cash or a new security or obligation in exchange for the distressed debt obligations, the value of which may be less than a Client's purchase price of such assets. Furthermore, if an anticipated transaction does not occur, a Client may be required to sell its investment at a loss. Given the substantial uncertainties concerning transactions involving stressed or distressed debt obligations in which such Client invests, there is a potential risk of loss by such Client of its entire investment in any particular position.

The Advisers, on behalf of a Client, may participate on committees formed by creditors to negotiate with the management of financially-troubled obligors that may or may not be in bankruptcy or may negotiate directly with debtors with respect to restructuring issues. If a Client does choose to join a committee, it would likely be only one of many participants, all of whom would be interested in obtaining an outcome that is in their individual best interests. There can be no assurance that a Client would be successful in obtaining results most favorable to it in such proceedings, although it may incur significant legal and other expenses in attempting to do so. As a result of participation by a Client on such committees, such Client may be deemed to have duties to other creditors represented by the committees, which might thereby expose it to liability to such other creditors who disagree with the Client's actions. Participation by a Client on such committees may cause such Client to be subject to certain restrictions on its ability to trade in a particular investment and may also make it an "insider" or an "underwriter" for purposes of federal securities laws. Either circumstance will restrict a Client's ability to trade in or acquire additional positions in a particular investment when the Advisers might otherwise desire to do so.

Investments in Direct Ownership of Real Estate Assets. The Advisers, on behalf of certain Clients, may acquire the property or properties which underlie distressed credit investments. If this occurs, the applicable Client may be required to expend funds to increase the value of the real estate acquired or prepare such properties for sale, and may be required to incur brokerage commissions in connection with a sale. The operation of properties pending disposition can also be expensive and time consuming.

In-House Models. In addition to other analytical tools, the Advisers utilize in-house financial models to evaluate prospective investments and monitor existing holdings. The accuracy and effectiveness of these models cannot be guaranteed.

Leverage and Financing Risk. The Advisers may cause the Clients to use leverage in order to enhance the Clients' overall return. Leverage may be employed through, among other things, collateralized debt offerings, committed credit facilities and term borrowings from banks and other financial institutions, repurchase agreements, total rate of return swaps and prime brokerage arrangements.

While leverage presents opportunities for increasing a Client's total return, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment of a Client would be magnified to the extent a Client is leveraged. The cumulative effect of the use of leverage with respect to a Client in a market that moves adversely to such Client's investments could result in a substantial loss to the Client that would be greater than if the Client were not leveraged.

When employed, the use of mark-to-market borrowings results in certain additional risks to a Client. For example, should the financial instruments pledged to secure such debt decline in value, a Client could be subject to a "margin call," pursuant to which such Client would either be required to deposit additional funds or financial instruments with the counterparty, or suffer mandatory liquidation of the pledged financial instruments to compensate for the decline in value. In the event of a sudden drop in the value of a Client's assets, the Advisers might not be able to liquidate the Client's assets quickly enough to satisfy such requirements.

Clients may enter into repurchase and reverse repurchase agreements, and such agreements involve certain risks. For example, if the seller of financial instruments to the Clients under a reverse repurchase agreement defaults on its obligation to repurchase the underlying financial instruments as a result of its bankruptcy or otherwise, the Advisers on behalf of such Clients will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the ability of the Advisers to dispose of the underlying financial instruments may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Advisers may not be able to substantiate the Clients' interest in the underlying financial instruments. Finally, if a seller defaults on its obligation to repurchase financial instruments under a reverse repurchase agreement, the Clients may suffer a loss to the extent the Advisers are forced to liquidate the Clients' position in the market, and proceeds from the sale of the underlying financial instruments are less than the repurchase price agreed to by the defaulting seller.

Certain financing used by the Advisers to leverage the Clients' portfolios may be extended by banks, securities brokers and dealers in the marketplace in which the Clients invest. The Clients may therefore be subject to changes in the value that the bank or broker-dealer ascribes to a given security or position, the amount of margin required to support such security or position, the borrowing rate to finance such security or position and/or such bank or broker-dealer's willingness to continue to provide any such credit to the Clients. The forced liquidation of all or a portion of a Client's portfolio at distressed prices could result in significant losses to the Client.

Short Selling. A Client's investment program may include short selling. Short positions may be taken if, in the view of the applicable Advisers, such positions would reduce the risk inherent in taking long positions. The extent to which the Advisers will cause a Client to engage in short sales depends upon the Client's investment strategy. Certain other market participants could accumulate such financial instruments, which would reduce the available supply, and thus increase the cost of borrowing such financial instruments. Purchasing financial instruments to close out the short positions can itself cause the price of the financial instruments to rise further, thereby exacerbating the loss. Such practices can, in certain circumstances, substantially increase the impact of adverse price movements on a Client's portfolio. A short sale of a financial instrument involves the risk of a theoretically unlimited increase in the market price of the financial instrument, which could result in an inability to cover the short position or a theoretically unlimited loss. There can be no assurance that financial instruments necessary to cover a short position will be available for purchase.

Synthetic Instruments. A Client's investment program may consist of investing in synthetic instruments. Such instruments may be illiquid. As a result, the Advisers may not be able to sell assets in the Clients' portfolios or may only be able to do so at unfavorable prices. Such "liquidity risk" could adversely impact the value of the Clients' portfolios, and may be difficult or impossible to hedge against.

It is noted that synthetic instruments may be extremely difficult to value accurately. Further, because of overall size or concentration in particular markets of positions that may be held by a Client, the value at which its investments can be liquidated may differ, sometimes significantly, from the interim valuations arrived at using the methodology described in the governing documents of a Client. Third-party pricing information may not be available for certain positions held by a Client. Synthetic instruments held by a Client may trade with bid-offered spreads that may be significant.

Because the synthetic instruments are valued on a "mark-to-market" basis, the Advisers may need to increase the Clients' capital underlying a particular position in order to maintain the Clients' notional exposure under an instrument.

Derivative Instruments Generally. The Advisers, on behalf of the Clients, may invest in derivative instruments. Generally, derivatives can be characterized as financial instruments whose performance is derived, at least in part, from the performance of an underlying asset or assets. Types of derivatives include options, futures contracts, options on futures, forward contracts, swaps and credit-linked notes.

Derivatives can be volatile and involve various degrees of risk, depending upon the characteristics of the particular derivative and the portfolio as a whole. Derivatives may permit the Advisers, on behalf of the Clients, to increase or decrease the level of risk, or change the character of the risk, to which its portfolio is exposed in much the same way as the Advisers can increase or decrease the level of risk, or change the character of the risk, of the Clients' portfolios by making investments in specific securities. Other risks that derivative instruments in general may entail include imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative instruments. Furthermore, the ability to successfully use derivative instruments may be more dependent on the portfolio managers' ability to predict pertinent market movements than other investments. Thus, the use of derivative instruments may result in losses greater than if they had not been used, may require the Advisers, on behalf of the Clients, to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Clients can realize on an investment, or may cause the Advisers to cause the Clients to hold a security that they might otherwise sell. Additionally, amounts paid from a Client's assets as premiums and cash or other assets held in margin accounts with respect to derivative instruments are not otherwise available to the Client for investment purposes.

Derivatives may be purchased on established exchanges or through privately-negotiated transactions referred to as over-the-counter derivatives. Exchange-traded derivatives generally are guaranteed by the clearing agency which is the issuer or counterparty to such derivatives. This guarantee is usually supported by a daily payment system (i.e., margin requirements) operated by the clearing agency in order to reduce overall credit risk. As a result, unless the clearing agency defaults, there is relatively little counterparty credit risk associated with derivatives purchased on an exchange. By contrast, no clearing agency guarantees over-the-counter derivatives. Therefore, each party to an over-the-counter derivative bears the risk that the counterparty will default. Over-the-counter derivatives may be less liquid than exchange-traded derivatives since the other party to the transaction may be the only investor with sufficient understanding of the derivative to be interested in bidding for it.

Credit Derivatives. Credit derivatives, examples of which include credit default swap agreements and credit-linked notes, may be bought and sold on behalf of a Client. Credit derivatives are contracts that transfer price, spread and/or default risks of debt and other instruments from one party to another. Such instruments may include one or more debtors. Payments under credit derivatives may be made during the exercise period of the contracts. Payments under many credit derivatives are triggered by credit events which vary by type of credit derivative, and may include one or more of bankruptcy, default, restructuring, failure to pay, cross default or acceleration, principal writedown or other event. Such payments may be for notional amounts, actual losses or amounts determined by formula.

A credit default swap agreement is structured as a swap agreement. The "buyer" in a credit default swap agreement is obligated to pay the "seller" a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the "par value" (full

notional value) of the reference obligation. The contingent payment may be a cash settlement or by a physical delivery of the reference obligation in return for payment of the face amount of the obligation. The Advisers may cause a Client to either be the buyer or seller in the transaction. If a Client is a buyer and no credit event occurs, such Client may lose its periodic premium payments and recover nothing. However, if a credit event occurs, the buyer typically receives full notional value for a reference obligation that may have little or no value. As a seller, a Client receives a fixed rate of income throughout the term of the contract, provided that no credit event occurs. If a credit event occurs, the seller may pay the buyer the full notional value of the reference obligation.

A credit-linked note is a security that is structured by embedding a credit default swap agreement in a funded asset to form an investment that has credit risk and cash flow characteristics resembling a bond or a loan.

The market for credit derivatives may be illiquid and there are considerable risks that it may be difficult to either buy or sell the instruments as needed or at reasonable prices. Sellers of credit derivatives carry the inherent price, spread and default risks of the debt instruments covered by the derivative instruments. Buyers of credit derivatives carry the risk of non-performance by the seller due to inability to pay. There are also risks with respect to credit derivatives in determining whether an event will trigger payment under the derivative and whether such payment will offset the loss or payment due under another instrument. In the past, buyers and sellers of credit derivatives have found that a trigger event in one contract may not match the trigger event in another contract, exposing the buyer or the seller to further risk.

The value of a credit derivative instrument depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to trading derivatives related to such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose a Client to the possibility of a loss exceeding the original amount invested. There can be no assurance that derivatives that the Advisers may wish to acquire on behalf of the Clients will be available at any particular times, at satisfactory terms or at all.

Total Return Swaps. The Advisers may cause the Clients to enter into total return swap agreements. Total return swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging up to several years. In a standard “swap” transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. The gross returns to be exchanged or “swapped” between the parties are calculated with respect to a “notional amount” (i.e., the return on or increase in value of a particular dollar amount invested at a particular interest rate, in a particular loan or security, or in a “basket” of securities representing a particular index). The “notional amount” of the swap agreement provides the dollar basis on which to calculate the obligations that the parties to a swap agreement have agreed to exchange. Most swap agreements entered into on behalf of a Client would calculate the obligations of the parties to the agreement on a “net” basis. Consequently, a Client’s obligations (or rights) under a swap

agreement will generally be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement.

Other Derivative Instruments. The Advisers, on behalf of the Clients, consider and/or complete investments in certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of a Client and legally permissible. Special risks may apply to instruments in which a Client may invest in the future that cannot be determined at this time or until such instruments are developed or invested in by such Client.

Hedging Transactions. Hedging against interest rate exposure may adversely affect Clients' earnings. A Client may utilize a variety of financial instruments (including swaps, swaptions, futures, options, forwards and other derivatives), both for investment purposes and for risk management purposes, in order to, among other things: (i) protect against possible changes in the market value of such Client's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect such Client's unrealized gains in the value of such Client's investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in such Client's portfolio; (v) hedge the interest rate or currency exchange rate on any of such Client's liabilities or assets; or (vi) for any other reason that the Advisers deem appropriate. The Advisers may not be required to hedge portfolio positions of a Client and, for various reasons, may determine not to do so. Furthermore, the Advisers may not anticipate a particular risk so as to hedge against it.

The success of any hedging activities by a Client is subject to the Advisers' ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many financial instruments change as markets change or time passes, the success of a Client's hedging strategy will also be subject to the Advisers' ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While a Client may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for such Client than if it had not engaged in any such hedging transactions. For a variety of reasons, the Advisers may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent a Client from achieving the intended hedge or expose such Client to risk of loss. The Advisers may not hedge against a particular risk because they do not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because they do not foresee the occurrence of the risk. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of a Client's portfolio holdings.

Lack of Liquidity and Valuation of Investments. The lack of liquidity in certain investments may significantly impede the Advisers' ability to respond to adverse changes in the performance of such investments and may adversely affect the value of a Client's interests. Because certain investments may be highly illiquid, the Advisers' ability to promptly sell one or more such investments in response to changing economic, financial and investment conditions is

limited. The market for commercial real estate and related loans and securities are affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond the Advisers' control. If the Advisers desired to sell a Client's interest in such investments, the Advisers cannot predict whether they will be able to sell such investments for the price or on the terms set by the Advisers, whether any price or other terms offered by a prospective purchaser would be acceptable to the Advisers or the timing of such sale.

In certain cases, the Advisers may also cause the Clients to acquire the property or properties which underlie such loans and securities or to invest directly in real estate assets. If this occurs, such Client may be required to expend funds to increase the value of the real estate acquired or prepare such properties for sale, and may be required to incur significant brokerage commissions in connection with a sale. The operation of properties pending disposition can also be expensive and time-consuming, and has high opportunity costs for a Client. The operation or ownership of properties may involve potential liabilities under environmental laws. Such laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of investigation, remediation, management or removal of such substances may be substantial, and the presence of such substances or the failure to properly remediate the contamination on such property may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. Finally, the owner 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.

Moreover, the Advisers may cause the Clients to invest in securities that are subject to legal or other restrictions on transfer or for which trading markets are less liquid. The market prices, if any, for such securities may be volatile and the Advisers may not be able to sell them when desired or to realize fair value as recorded on the Clients' books and records at any point in time in the event of a sale. The sale of restricted and less liquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of more liquid securities. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. The market for loans in which the Advisers may invest on behalf of the Clients may be even more illiquid than that for securities.

Liquidity of Fixed Income Markets. At times, the fixed income markets may experience significant reductions in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, the Advisers may not be able to sell assets in the Clients' portfolios or may only be able to do so at unfavorable prices. Such "liquidity risk" could adversely impact the value of a Client's portfolio, and may be difficult or impossible to hedge against.

Risk of Decline in Value of Collateral. The value of the assets which underlies a Client's investments is subject to market conditions. Changes in asset markets may adversely affect the value of such assets and thereby lower the value to be derived from a liquidation. In

addition, adverse changes in asset markets increase the probability of default, as the incentive of the borrower to retain equity in the asset declines. Furthermore, some of the assets underlying a Client's investments may be suffering varying degrees of financial distress. A Client's investments may become non-performing for a variety of reasons, including, without limitation, because the underlying assets are too highly leveraged (and, therefore, unable to generate sufficient income to meet debt service payments), the assets are poorly managed, or have a high vacancy rate, have not been fully completed or are in need of rehabilitation. Such non-performing investments may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments and write-downs of the principal balance of the investment. However, even if such restructuring were successfully accomplished, the risk exists that upon maturity of such investment, replacement financing will not be available.

It is possible that the Advisers may find it necessary or desirable to foreclose on some of the loans underlying their secured investments. The foreclosure process may be lengthy and expensive. Borrowers may resist mortgage foreclosure actions by asserting numerous claims, counterclaims and defenses against a Client including, without limitation, lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action and force the lender into a modification of the loan or a favorable buy-out of the borrower's position. In some states, foreclosure actions can sometimes take several years or more to litigate. At any time prior to or during the foreclosure proceedings, the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process. Foreclosure litigation may create a negative perception of the mortgaged property in its local market, and may result in disrupting the ongoing leasing, management and operation of the property.

Extraordinary Expenses, Uncertainty in Exchange Offers Related to Stressed and Distressed Assets. At times, stressed and distressed assets may not produce income and may require a Client to bear certain extraordinary expenses (including legal, accounting, valuation and transaction expenses) in order to protect and recover its investment. Therefore, to the extent a Client is invested in stressed and distressed assets, such Client's ability to achieve current income for its investors may be diminished. In the case of investments in real estate and related corporate loans, bonds and preferred securities, a Client also will be subject to significant uncertainty as to when and in what manner and for what value the stressed and distressed assets held by a Client will eventually be satisfied (e.g., through a liquidation of the obligor's assets or an exchange offer or plan of reorganization involving the stressed or distressed loans or securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or plan of reorganization is adopted with respect to stressed or distressed obligations held by a Client, there can be no assurance that the securities or other assets received by such Client in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by a Client upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of the Advisers' participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an obligor on distressed loans or securities, one or more Clients may be restricted from disposing of such securities.

Necessity for Counterparty Trading Relationships; Counterparty Risk. The Advisers, on behalf of the Clients, may establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit a Client to invest in a variety of markets; however, there can be no assurance that the Advisers will be able to establish or maintain such relationships. An inability to establish or maintain such relationships would limit a Client's activities, could create losses, preclude such Client from engaging in certain transactions, financing, derivative intermediation and prime brokerage services, or prevent such Client from investing at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before the Advisers establish additional relationships on behalf of a Client could have a significant impact on the Client's business due to the Client's reliance on such counterparties.

Many of the markets in which the Advisers may effect transactions on behalf of a Client are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. The lack of oversight of over-the-counter markets exposes a Client to the risk that a counterparty may not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing the underlying fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the transactions of a Client are concentrated with a single or small group of counterparties. The Advisers are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. The ability of the Advisers to transact business with any one or number of counterparties, the limitations on independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement, may increase the potential for losses by the Clients.

Counterparty Default. The stability and liquidity of financing agreements, swap transactions, forward transactions and other over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transaction. If there is a default by the counterparty to such a transaction, a Client will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of a Client being less than if the Advisers had not caused such Client to enter into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of a Client's counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of such Client's financial instruments and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the financial instruments or assets originally entrusted to such prime broker or broker-dealer.

In addition, a Client may use counterparties located in jurisdictions outside the United States. Such local counterparties are subject to the laws and regulations in non-U.S. jurisdictions that are designed to protect their customers in the event of their insolvency. However, the

practical effect of these laws and their application to a Client's assets are subject to substantial uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on a Client and its assets. Investors in a Client should assume that the insolvency of any counterparty would result in a loss to such Client, which could be material.

Risks of Loss from Earthquakes and Terrorism. Certain of the assets underlying the Clients' investments may be located in geographic areas at higher risk for earthquakes, terrorism and threats of terrorism. Future earthquakes or acts of terrorism could adversely impact the demand for, and value of, their assets and could also directly impact the value of the Clients' assets through damage, destruction or loss, and could thereafter materially impact the availability or cost of insurance to protect against these events. The Advisers cannot predict whether the Clients will be able to obtain and/or maintain appropriate coverage at a reasonable cost in the future. Any earthquake or terrorist attack, whether or not insured, could have a material adverse effect on the Clients' performance. In addition, there is a risk that one or more of the Clients' property insurers may not be able to fulfill its obligations with respect to claims payments due to a deterioration in its financial condition.

Cybersecurity and Technology Risks. The information and technology systems and key service providers used by the Advisers to carry out routine business operations may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons, security breaches and usage errors. Although the Advisers have implemented various protections designed to manage risks relating to these types of events, if those systems are compromised, become inoperable for extended periods of time or cease to function properly, the result may be significant interruptions in the operations of the Advisers or the Clients, as well as failure to maintain the security, confidentiality or privacy of sensitive data, including personal information. In particular, a cybersecurity breach could expose the Advisers or the Clients to substantial costs, including those associated with analysis of the origin and scope of the breach, remediation, increased and upgraded cybersecurity systems and measures, identity theft, unauthorized use of proprietary information, dissemination of confidential and proprietary information, reputational damage, civil liability and regulatory investigations and sanctions.

Business and Regulatory Risks; Increased Regulatory Oversight. Legal, tax and regulatory changes are likely to occur, and some of these changes may adversely affect the Clients, perhaps materially. The financial services industry generally, and the activities of private investment funds and their managers in particular, have been subject to increasing regulatory scrutiny since the global financial crisis. Such ongoing scrutiny may increase the Clients' exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may also impose additional burdens on the Advisers' time, attention and resources, including, without limitation, responding to investigations and implementing new policies, procedures and reporting requirements.

In addition, securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions remains an evolving area, with many transactions now required to be centrally cleared and many market participants

required to comply with margin, capital and reporting requirements. These new regulations may make it more difficult and expensive for the Clients to enter into derivatives transactions.

Regulators continue to consider and implement additional regulations, guidance and other measures. It is impossible to predict what, if any, changes in regulation applicable to the Clients, the Advisers, the markets in which they invest, or the counterparties with which they do business may be instituted in the future. Any future regulatory change affecting a Client or an Adviser could be substantial and adverse.

In addition, investors should understand that the Clients' business is dynamic and is expected to change over time. Therefore, the Clients may be subject to new or additional regulatory constraints in the future. Such regulations may have a significant impact on the Clients' operations, including, without limitation, restricting the types of investments a Client may make or requiring a Client to disclose the identity of its investors, its positions or otherwise.

Potential Conflicts of Interest. There are potential conflicts of interest involving the Advisers and their Clients. The Advisers provide discretionary investment management services to multiple Clients, some of which share similar investment objectives, and may, in the future, provide discretionary investment management services to other investment funds, some of which may have similar investment objectives to those the Clients. The Advisers and their personnel will devote such time as shall be necessary to conduct business affairs of the Clients in an appropriate manner. However, such personnel may work on other projects, including investments for other strategies, and, therefore conflicts may arise in the allocation of personnel. Some or all of the Clients will have no interest in such investments. Conflicts may also arise in the allocation of management resources.

Item 9 – Disciplinary Information

There are no legal or disciplinary events that are material to a Client's or prospective Client's evaluation of the Advisers' advisory business or the integrity of the Advisers' management.

Item 10 – Other Financial Industry Activities and Affiliations

A. Broker-Dealer Registration Status

The Advisers and their management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status

The Advisers and their management persons are not currently registered as, and do not have any application to register as, a futures commission merchant, commodity pool operator, commodity trading adviser, or an associated person of the foregoing entities under exemption 4.14(a)(8) of the Commodity Exchange Act.

C. Material Relationships

Each of H/2 SOGP II LLC, H/2 SOGP III LLC, SOGP IV LLC, and H/2 TRS II Holdings LLC is an Investment Advisory Affiliate and serves as the general partner of certain Clients.

Each of H/2 SO Manager II LP, H/2 SO Manager III LP, H/2 SO Manager IV LP, and H/2 TRS II Manager LP is a Relying Adviser and serves as the investment manager to certain Clients.

D. Material Conflicts of Interest Relating to Other Investment Advisers

The Advisers do not recommend or select other investment advisers for their Clients.

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

A. Code of Ethics

The Advisers recognize and believe that high ethical standards are essential for their success and to maintain the confidence of their Clients.

The Code of Ethics (the “Code”) governs a number of potential conflicts of interest which exist when providing advisory services to the Clients that they manage. This Code is designed to ensure that the Advisers meet their fiduciary obligation to the Clients (or prospective Clients) and to instill a culture of compliance within the Advisers. All personnel must also comply with all applicable federal securities laws.

The Code is distributed to all personnel at the time of hire and annually thereafter. The Adviser also supplements the Code with on-going monitoring of personnel activity. On or prior to joining the Adviser, and on an annual basis, the Adviser requires all personnel to certify that they are in compliance with the Code.

All personnel are generally restricted from buying and selling for their own accounts investments in commercial real estate securities and related financial instruments. The Code requires that all personal securities transactions (other than certain exempt transactions) receive pre-clearance from the Chief Compliance Officer. These policies are designed to comply with SEC requirements, pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), that registered investment advisers have a Code of Ethics.

The Advisers require that all personnel avoid any financial interest or activity that might impair, or even appear to impair, such individual’s ability to make objective and fair decisions when performing job functions. The Code also contains general prohibitions against fraud, deceit and manipulation, as well as additional restrictions and requirements regarding standards of business conduct and fiduciary duties, treatment of confidential information, political contributions, gifts, entertainment and outside activities.

The Advisers have adopted policies and procedures regarding material non-public information and proprietary Adviser information, and employee accounts and trading. The policies and procedures contained are designed to: (i) provide for the proper handling of both material non-public information about companies or other issuers and proprietary information of the Advisers; and (ii) prevent violations of laws and regulations prohibiting the misuse of material non-public information about companies or other issuers and/or proprietary information of the Advisers.

There may be certain instances where the Advisers receive material non-public information due to their various activities on behalf of the Clients and are restricted from purchasing or selling securities or other instruments of or for the Clients. The Advisers seek to minimize those cases whenever possible, consistent with applicable law, but there can be no assurance that such efforts will be successful and that such restrictions will not occur.

The Code is available for review by the Clients upon request.

B. Securities in Which You or a Related Person has a Material Financial Interest

The Advisers generally do not engage in cross trades among Clients. However, to the extent that they do so in the future, such cross trades will be executed at the market price (or fair value) consistent with any required approvals and with independent third-party valuation procedures established by the Advisers and the relevant Clients for the securities or other instruments being purchased and sold, if applicable. The Advisers have implemented policies and procedures to ensure that, if completed, cross trades are, in the reasonable determination of the Advisers, in the best interests of each transacting Client.

C. Investing in Securities that You or a Related Person Recommends to Clients

See response to Item 11A.

D. Conflicts of Interest Created by Contemporaneous Trading

The Advisers manage investments on behalf of a number of Clients. Certain Clients have investment programs that are similar or may overlap and may, therefore, participate with each other in investments. Because of the diversity of objectives, risk tolerances, tax situations and differences in the timing of capital contributions and withdrawals, there will be differences in invested positions held among the Clients. Any allocation of investments among the Clients by the Advisers will be made in a manner consistent with each Client's investment objectives. Investment decisions and allocations are not necessarily made in parallel among all of the Clients. In all cases, allocation requirements (if any) set forth in the Client's governing documents will control. The Advisers in their sole discretion may make non-pro rata allocations among the Clients based upon a variety of factors including, among other factors, investment strategy, mandate or area of focus; risk management (e.g., volatility, liquidity, diversification and concentration in light of each Client's existing portfolio and investment pipeline); Client restrictions or limitations; tax or legal considerations; and cost or availability of financing.

Because the Advisers may make non-pro rata allocations, the Clients may produce results that are materially different from one another.

Item 12 – Brokerage Practices

A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions

The Advisers have complete discretion, without obtaining specific Client consent, to: (i) buy or sell investments; (ii) the amount of the investments to be bought or sold; (iii) the broker or dealer to be used in such purchase or sale; and (iv) the commission rates paid in connection with such purchase or sale.

Portfolio transactions for the Clients will be allocated to brokers and dealers on the basis of the Advisers' best execution policies. The Advisers' best execution policies require that a Client's investments or trades be placed for execution only with approved brokers or dealers. The Advisers maintain a list of approved broker-dealers eligible to effect the Clients' transactions (the "Approved Broker List"). The factors considered in selecting and approving brokers-dealers that may be used to execute trades for a Client's accounts include, but are not limited to: (i) quality of execution – accuracy and timeliness of execution, clearance and error/dispute resolution; (ii) reputation, financial strength and stability; (iii) market making and risk positioning capabilities; (iv) willingness to execute transactions on terms requested or required; (v) willingness and ability to commit capital for trading as well as financing requests; (vi) access to investment opportunities; (vii) on-going reliability; (viii) overall costs of execution (*i.e.*, net price paid or received) including commissions, mark-ups, mark-downs or spreads in the context of the Firm's knowledge of negotiated transaction costs available in the market; (ix) nature of the investment or security and the available market makers; (x) desired timing of the transaction and size of transaction; (xi) confidentiality of execution; (xii) market knowledge; and (xiii) the quality of brokerage or research.

The Advisers' Brokerage Committee is responsible for the following: (i) reviewing broker-dealer investment/trading volumes, prices, commissions, other transaction costs and the overall quality of execution; (ii) reviewing the Approved Broker List; and (iii) reviewing any soft dollar arrangements.

1. Research and Other Soft Dollar Benefits.

It is the current policy of the Advisers not to enter into soft dollar or comparable commission sharing arrangements with broker-dealers relating to transactions executed for the benefit of the Clients, despite the incentive to receive research or other products or services without paying. It should be noted however that various broker-dealers may provide the Advisers with proprietary research and other products and services, which the Advisers may use to equally service all Clients. The Advisers believe that they would receive such research, products and services regardless of the volume of transactions executed through such broker-dealers or the level of commissions or spreads generated by such transactions and that, accordingly, they are not causing any Client to "pay up" for such research, services or products and such research, products and services are not a factor considered by the Advisers in directing Client transactions to such broker-dealers. The Advisers do not cause the Clients to pay commissions higher than those charged by other broker-dealers in return for soft-dollar benefits or direct client transactions to a particular broker-dealer in return for soft dollar benefits.

2. Brokerage for Client Referrals.

The Advisers do not receive Client referrals in exchange for brokerage business.

3. Directed Brokerage.

The Advisers do not recommend, request or require that a Client direct any of the Advisers to execute transactions through a specified broker-dealer.

B. Aggregated Orders for Various Client Accounts

The Advisers may execute transactions on an aggregated basis if the Advisers believe that to do so will allow them to obtain best execution and to negotiate more favorable pricing than might have otherwise been paid had such orders been placed independently, to the extent permitted by applicable law. When aggregating orders, all of the Clients will be treated in a fair and equitable manner. Each Client that participates in an aggregated order will participate at the average price for all of the Advisers' transactions in that instrument on a given business day, with transaction costs shared pro rata based on each Client's participation in the transaction.

C. Trade Errors

Examples of trade errors include: (i) placement of orders (either purchases or sales) in excess of the amount of investment that the Advisers intended to complete; (ii) the sale of an investment when it should have been purchased; (iii) the purchase of an investment when it should have been sold; (iv) the purchase or sale of the wrong investment; (v) the purchase or sale of an investment contrary to regulatory restrictions or the investment guidelines or restrictions of a Client; and (vi) incorrect allocation of investments. The Advisers endeavor to detect trade errors prior to settlement and correct them in an expeditious manner.

The Advisers' general policy is to reimburse losses suffered by a Client as a result of a trade error caused by the Advisers' bad faith, fraud, willful misconduct or gross negligence. It is the policy of the Advisers to ensure that each error is corrected in an expeditious manner.

Pursuant to various exculpation and indemnification provisions, the Advisers and their personnel generally will not be liable to any Client for any act or omission, absent bad faith, gross negligence, willful misconduct or fraud. In addition, the Clients generally will be required to indemnify such persons against any losses they may incur by reason of any act or omission related to a Client, absent bad faith, gross negligence, willful misconduct or fraud. As a result of these provisions, such Client (and not the Advisers) will be responsible for any losses resulting from trading and allocation errors and similar human errors, absent bad faith, gross negligence, willful misconduct or fraud. Trading and allocation errors might include, for example, keystroke errors that occur when entering trades into an electronic trading system, failures of oral communication between and among investment staff, trading staff and operations staff, or typographical or drafting errors related to derivatives contracts or similar agreements. Given the nature of the Clients' business, investors are advised that trading and allocation errors (and similar errors) may occur and the applicable Client(s), in such cases, will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the personnel of the Advisers.

Item 13 – Review of Accounts

A. Frequency and Nature of Review of Client Accounts or Financial Plans

The Advisers perform various daily, weekly, monthly, quarterly and periodic reviews of each Client's portfolio. Such reviews are conducted by personnel of the Advisers.

B. Factors Prompting Review of Client Accounts Other than a Periodic Review

A review of a Client account may be triggered by any unusual activity or special circumstances.

C. Content and Frequency of Account Reports to Clients

Investors in the Clients receive unaudited reports on a monthly or quarterly basis, providing summary financial and other information about the Client in which they are invested, and audited financial statements of the Client in which they are invested annually.

The Advisers may provide certain investors with information on a more frequent and detailed basis if agreed to by the Advisers.

Item 14 – Client Referrals and Other Compensation

A. Economic Benefits for Providing Services to Clients

The Advisers do not receive economic benefits from non-Clients for providing investment advice and other advisory services.

B. Compensation to Non-Supervised Persons for Client Referrals

Neither the Advisers nor any related person directly or indirectly compensates any person for Client referrals. The Adviser has in the past engaged a placement agent to solicit certain types of prospective investors for investments in two of the Clients. The Advisers may in the future enter into additional arrangements with third-party placement agents, distributors or others to solicit investors in the Clients, and such arrangements will generally provide for the compensation of such persons for their services at the Advisers' expense.

Item 15 – Custody

In connection with the management of investments for certain investors, the Advisers may have, or may be deemed to have, custody of certain funds or securities of their Clients. Rule 206(4)-2 (the “Custody Rule”) of the Advisers Act, defines custody as holding client securities or assets or having any authority to obtain possession of them, including the authority to withdraw funds or securities from a client’s accounts or ownership of or access to client funds or securities (such as through fee deductions).

The Custody Rule imposes on advisers with custody of clients’ funds or securities certain requirements concerning reports to such clients (including underlying investors) and surprise examinations relating to such clients’ funds or securities. However, the adviser need not comply with such requirements with respect to pooled investment vehicles subject to audit and delivery if each pooled investment vehicle: (i) is audited at least annually by an independent public accountant; and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to its investors, all limited partners, members or other beneficial owners within 120 days (180 days in the applicable case of a fund of fund adviser) of its fiscal year-end.

The Clients with respect to which the Advisers are deemed to have custody of Client assets are subject to an annual audit performed by a nationally-recognized public accounting firm and the audited financial statements are distributed to each underlying investor in each Client. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and will generally be distributed within 120 days of each Client’s fiscal year end.

Information on a Client’s qualified custodian, if any, including such qualified custodian’s name, address and the manner in which the Client’s assets are maintained, may be provided in the relevant governing and/or offering documents of such Client.

Item 16 – Investment Discretion

The Advisers have been appointed as the investment manager, manager or general partner of the Clients with discretionary investment and trading authorization. The Advisers have discretionary authority with respect to investment decisions, and its advice with respect to the Clients is made in accordance with the investment objectives and guidelines as set forth in each Client's respective private placement memoranda, if any, investment management agreement or other governing document. The Advisers assume discretionary authority to manage the Clients through the execution of investment management agreements or through the governing documents of the Clients (e.g., limited partnership agreements).

Item 17 – Voting Client Securities (Proxy Voting)

As a fiduciary, an investment adviser with proxy voting authority has a duty to monitor corporate events and to vote proxies, as well as a duty to cast votes in the best interest of its clients and not subrogate any client interests to its own interests. Rule 206(4)-6 under the Advisers Act places specific requirements on registered investment advisers with proxy voting authority. To meet their obligations under this rule, the Advisers have adopted written Corporate Action Policies and Procedures (the “Policies”), which are available upon request. The Policies are reasonably designed to ensure that the Advisers vote proxies in the best interest of the Clients and address how they will resolve any conflict of interest that may arise when voting proxies.

The Advisers are committed to voting proxies in a manner consistent with the best interests of the Clients. While the decision whether or not to vote a proxy must be made on a case-by-case basis, the Advisers may determine not to vote a proxy if they believe the proposal is not adverse to the best interests of the Clients, or, if adverse, the outcome of the vote is not in doubt. A copy of the Policies and the proxy voting record relating to a Client may be made available to a Client upon request.

Item 18 – Financial Information

The Advisers are not required to include a balance sheet for their most recent financial year, are not aware of any financial condition reasonably likely to impair their ability to meet contractual commitments to the Clients, and have not been the subject of a bankruptcy petition at any time during the past ten years.